

JPRS-CAR-90-046  
26 JUNE 1990



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# China

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## Yu Wen Named To Head CASS

90CM0157A Hong Kong CHAO LIU [TIDE]  
in Chinese No 38, 15 Apr 90 pp 29-31

[Article by Zhao Shanghou (6392 1424 0624): "Yu Wen, Protege of Wang Zhen, Takes Over CASS"]

[Text] Li Shenzhi [2621 1957 0037], a former vice president of the Chinese Academy of Social Sciences [CASS], was dropped from the presidium of the National People's Congress [NPC] at the third annual meeting of the Seventh NPC, which closed on 4 April. Other high-ranking cadres removed from the presidium were Zhao Ziyang, Hu Qili [5170 0796 4539], and Tang Dacheng [0781 6671 2052], secretary of the secretariat of the Chinese Writers Association, all having fallen into disgrace after the Tiananmen incident.

The academy has taken a rough beating as people settled accounts after the events at Tiananmen Square. Three vice presidents—Zheng Bijian [6774 1801 1017], Li Shenzhi, and Zhao Fusan [6392 1788 0005], the last in exile abroad, have been relieved of their jobs. The person who wields real power at CASS today is Yu Wen [6735 2429], a protege of Wang Zhen [3769 7201] and Deng Lique [6772 0500 5028], who was recently transferred to the academy. He quit his former sinecure—vice chairmanship of the nationalities committee under the NPC Standing Committee—at the NPC's latest annual meeting.

## Yu Wen Had Strong Ties To Wang Zhen in Xinjiang

The president of CASS is still Hu Sheng [5170 4939], vice chairman of the CPPCC [Chinese People's Political Consultative Conference], and formerly secretary general of the Propaganda Department, CPC Central Committee; deputy director of the Political Research Center, CPC Central Committee; deputy editor in chief of HONGQI [RED FLAG]; and director of the Party History Research Center, CPC Central Committee.

Yu Wen was recently transferred to CASS to replace Zheng Bijian (58), a former political secretary of Hu Yaobang, as vice president. He also heads the leading party group at the academy.

At 72, Yu Wen is the same age as Hu Sheng. The vice presidency of CASS is equivalent to a vice ministership in the State Council, with a retirement age of 65. Yu Wen was appointed vice president of CASS and secretary of the leading party group despite his age because he is a hardline cadre, particularly because he is an old protege of Wang Zhen and Deng Lique. After the "Beijing massacre" of 4 June, hardline forces reasserted themselves, and Hu Qiaomu, Deng Lique, and Xu Lique [6079 4539 5028] are again active in the "theoretical circles."

From 1950 to 1954 Wang Zhen was secretary of the CPC Xinjiang branch bureau as well as commander and political commissar of the Xinjiang Military Region. Deng Lique was Wang Zhen's right-hand man and

served successively as secretary and propaganda chief of the CPC Xinjiang branch bureau. As for Yu Wen, he was Deng Lique's trusted subordinate and held a string of positions, including director of XINJIANG RIBAO, vice chairman of the cultural and educational committee of Xinjiang Province, and deputy director of the Propaganda Department of the Xinjiang branch bureau.

During his four years in Xinjiang, Yu Wen established a good relationship with Deng Lique and Wang Zhen. Later all three were transferred back to Beijing and for years none was subordinate to the others at work. In the early 1980's, however, they were colleagues again and in fact became very close as their ideas hardened.

## Yu Wen Served as Deputy Director Under Deng Lique

Between 1982 and 1985, Wang Zhen sat on the CPC Politburo and served concurrently as president of the Central Party School. Deng Lique was secretary of the CPC Central Committee secretariat and director of the Propaganda Department. Together with Hu Qiaomu [5170 0829 2606], a Politburo member, they controlled the party's "ideology," propaganda, and the training of senior cadres.

Yu Wen was then deputy director of the CPC Central Committee Propaganda Department under Deng Lique and second only to him in the department. He helped Deng Lique launch the first "anti-bourgeois liberalization" and "anti-spiritual pollution" campaigns.

In July 1985, Zhu Houze [2612 0624 3419], secretary of the Guizhou CPC Committee and a leader of the reform group, was promoted by Hu Yaobang to replace Deng Lique as director of the central Propaganda Department. As Deng Lique fell from power, so did Yu Wen. He left the Propaganda Department and became vice chairman of the external propaganda group under the CPC Central Committee, a position with no real power. (The group leader was Zhu Muzhi [2612 4476 0037].) Later he became vice chairman of the nationalities committee and a member of the Standing Committee of the NPC.

After the "Beijing massacre" of 4 June, Yu Wen staged a comeback. Recently he assumed control of CASS and was put in charge of political "purges" there.

## Zheng Bijian, Li Shenzhi, and Zhao Fusan Already Suspended

Because of its cadres' and researchers' deep involvement in the democracy movement of 1989, CASS became a target of purges after the "Beijing massacre" of 4 June. Many people have been investigated, suspended, or imprisoned. Bao Zunxin [0545 6690 0207] and Zhang Xianyang [1728 7359 2254] are still being detained.

The academy used to have seven vice presidents: Zheng Bijian, Liu Guoguang [0491 0948 0342], Li Shenzhi, Zhao Fusan, Qian Zhongshu [6929 6988 2579], Ru Xin [3067 0207], and Ding Weizhi [0002 0251 0037]. Today Liu Guoguang, who is in charge of economic research, is



still in power, but given his past role as economic adviser to Hu Yaobang and Zhao Ziyang, he would have a hard time winning the trust of Jiang Zemin and Li Peng. Qian Zhongshu, who heads artistic and literary research, is the only non-CPC member. Although he lent his support to the democracy movement, he has not been openly criticized by the CPC because he is a mere token at CASS and is already 80 years old. However, it is rumored that plans are being made to retire him. It is still unclear whether Ding Weizhi, who is in charge of social issues research, will be able to stay on as vice president.

Zheng Bijian, one of the vice presidents relieved of their positions, was in charge of Marxism-Leninism and political studies and party committee work. He served as Hu Yaobang's political secretary while the latter was general secretary of the CPC. Today he is still under investigation. Li Shenzhi, who oversees Taiwan and international studies, has also been prohibited from leaving the country while being investigated. Zhao Fusan, who headed religious studies and was in charge of international exchange, openly condemned the massacre policy of Deng Xiaoping, Yang Shangkun, and Li Peng, and is now in exile in Western Europe.

Only Ru Xin, who is in charge of philosophy research, still enjoys the favor of the current group of power holders. After 4 June, he took part in criticism meetings convened by the powers that be and has been quite enthusiastic about purging those involved in the disturbances. Xing Bisi [6717 6321 1835], who served as director of the Philosophy Institute under Ru Xin, has been promoted to be vice president of the Central Party School to oversee the theoretical education of high-ranking cadres. Both of them were originally members of the reform group critical of alienation under socialism but were bribed by Hu Qiaomu and Deng Liqun during the anti-spiritual pollution campaign into defending the "patriarchal" system.

#### Yu Wen Oversees Political Purges at CASS

Currently Yu Wen is in charge of political purges at CASS, with Hu Qiaomu, the academy's honorary president, and Deng Liqun, a former vice president, as backstage manipulators. Also involved in the purges is Xu Weicheng [1776 1919 6134], recently promoted to deputy director of the Central Propaganda Department. This guy used to be a hatchet man for Wu De [0702 1795], Xie Jingyi [6200 7234 1355], and Chi Qun [6688 5028] in Beijing and held up the model of pupils chiding their teacher as exemplified by "Huang Shui." He was once in the favor of Jiang Qing [3068 7230] and Zhang Chunqiao [1728 2504 2890]. (He previously served as deputy editor in chief of JIEFANG RIBAO under Zhang Chunqiao.)

Biographical sketch of Yu Wen: Born in Mancheng, Hebei, in 1918. Graduated from the Chinese People's Anti-Japanese Military and Political College in Yanan and the Central Party School. Joined the party, 1937. Experience from 1939 to 1949: director, news gathering

department, XINZHONG HUABAO, Yanan; director, XINHUA SHE, Shanxi branch; director, news gathering department, JINSUI RIBAO; director, JINAN RIBAO; deputy director, Propaganda Department, Xian CPC Committee. From 1949 to 1954: director, XINJIANG RIBAO; vice chairman, cultural and educational committee, Xinjiang Province; deputy director, Propaganda Department, CPC Xinjiang branch bureau. From 1955 to 1966: director, cadre bureau, Chinese Academy of Sciences [CAS]; deputy secretary general, CAS; director, political department, CAS; secretary, Chinese Science and Technology University CPC Committee. From 1982 to 1990: deputy director, Propaganda Department, CPC Central Committee; vice chairman, External Propaganda Group, CPC Central Committee; vice chairman, Nationalities Committee, NPC; vice president and party secretary, CASS.

Biographical sketches of former CASS leaders: Hu Sheng, 72. Native of Suzhou, Jiangsu. Graduated from Beijing University. Since 1949: secretary, Press and Publication Administration; secretary general, Central Propaganda Department; deputy director, Political Research Center, CPC Central Committee; deputy editor in chief, HONGQI; director, Party History Research Center, CPC Central Committee; president, CASS; vice chairman, CPPCC.

Zheng Bijian, 58. Native of Fushun, Sichuan. Graduate student at the Department of Political Economy, Chinese People's University. Since 1949: director, science office, Central Propaganda Department; deputy director, theoretical group, Mao Zedong writings editorial committee; researcher, research office of the Secretariat, CPC Central Committee; secretary to the secretary general and deputy director, International Studies Institute; vice president, CASS; director, Marxism-Leninism Institute.

Liu Guoguang, 67. Native of Nanjing, Jiangsu. Graduated from Department of Economics, Xinan University; master's degree, Moscow College of Economics. Since 1949: office chief and director, Economics Institute; deputy director, State Statistics Bureau; vice president, CASS; alternate member, 13th CPC Central Committee.

Zhao Fusan, 64. Native of Baoshan, Jiangsu. Graduated from St. John's University, Shanghai. Since 1949: registrar, Yanjing Xiehuo Seminary; minister, Chinese Anglican Church; researcher and deputy director, World Religion Institute; deputy secretary general and vice president, CASS; member, Standing Committee, Seventh NPC.

Li Shenzhi, 67. Native of Wuxi, Jiangsu. Graduated from Department of Economics, Yanjing University. Since 1949: chief and deputy director, international division, XINHUA SHE; director, American Studies Institute, CASS; vice president, CASS; member, Presidium of the Seventh NPC.

Qian Zhongshu, 80. Native of Wuxi, Jiangsu. Graduated from Foreign Languages Department, Qinghua University; master's in English, Oxford University. Since 1949: professor, Beijing University; researcher in literature; vice president, CASS; member, CPPCC.

Ru Xin, 59. Native of Wujiang, Jiangsu. Graduated from Department of Philosophy, St. John's University; graduate student, Philosophy Institute. Since 1949: assistant

researcher, associate researcher, researcher, deputy director, Philosophy Institute; vice president, CASS.

Ding Weizhi, 59. Native of Weifang, Shandong. Graduate student, Marxism-Leninism Institute. Since 1949: deputy editor in chief, LISHU YANJIU, deputy editor in chief and editor in chief, CASS Press; deputy secretary general and vice president, CASS.

## NATIONAL AFFAIRS, POLICY

### Internal, External Problems of Enterprise Groups Analyzed

90CE0020A Beijing JINGJI YU GUANLI YANJIU  
[RESEARCH ON ECONOMICS AND MANAGEMENT]  
in Chinese No 1, 8 Feb 90 pp 41- 42, 35

[By Yu Yeqiang (0060 2814 1730), Liang Hongyun (2733 4767 0061), and Han Fang (7281 5364)]

[Text] The emergence of enterprise groups in China is an objective requirement for the development of a commodity economy and an inevitable tendency of large-scale socialized production. Their emergence has demonstrated a strong influence in China on the creation of integrated productive forces, on the formation of an overall superiority, on adjusting and building the economic structure, on the formation of an economy of scale, on promoting technical progress in enterprises, and on strengthening China's entry into international markets. However, their development in China has been a rough and bumpy road. They are now again in the predicament of fighting a war on two fronts, domestically and abroad, and facing one contradiction after another. This article is an attempt to honestly confront the various contradictions that the groups are facing, to study and pursue the best countermeasures that can be realistically taken, and to explore future developmental trends for groups in order to make the greatest contribution we can to the development of China's enterprise groups.

### Correctly Handling the Relationship Between the State and Enterprise Groups, Exploring Ways of Making the Transition from Direct State Control to Indirect State Control

China's enterprise groups have received the support of the state from the day they were born. Enterprise groups that were developed during the commodity economy were granted all manner of support. Nevertheless, there are still some contradictions that exist between enterprise groups that have developed up to now and the state. The study and resolution of these contradictions represent a subject of chief importance in promoting the development enterprise groups.

1. Breaking through the old "three no changes" pattern creates an ideal new system of organization for the development of groups.

A number of facts prove that, in developing enterprise groups, the old system of enterprise organization where there is no change in ownership, no change in subordinate relationships, and no change in the channels for turning over finances to higher authorities is still the main obstacle to developing enterprise groups and is seriously fettering their start-up and development.

Analysis shows that the first difficulty in breaking through the "three no changes" is "property." The

regions or the departments in charge of the enterprises worry that, if subordinate relationships are changed, they will lose their property ownership rights and, if they lose their property ownership rights, they will lose their right to control the enterprises. In other words, if they lose their property, they will lose their authority. The second difficulty is "benefits." The regions and departments in charge of enterprises fear that changing the channels for turning over profits to higher authorities will affect financial benefits to localities. After units become responsible for their own finances, the attitude of various regional governments toward organization and development of transregional enterprise groups will be especially affected. The third difficulty is "reputation." If a local enterprise joins an enterprise group, especially if it becomes a member with close ties, the statistics on the output value and profit for that locality will inevitably be reduced and thus affect the assessment of the locality's achievements.

It is now extremely urgent for the further development of enterprise groups to break through the "three no changes." The fundamental way to make a thorough breakthrough is by reform. From a long-term point of view, we think that the old system of organization has to be broken up. State control of enterprise groups must make a gradual transition from direct control to indirect control. Given the difficulty of reforming the system of organization, the slowness in developing enterprise groups, and the urgent need to do so, we feel that, whether we can break through the pattern of the "three no changes" depends on two steps. The first step is the trial implementation of handing over finances to higher authorities by enterprise groups acting in unison in order to break down the local barriers between higher and lower levels and between different departments within the provinces without harming the benefits of the provinces. The second step is to gradually implement this nationwide along with intensification of reform and strengthening the system.

2. Strengthening policy coordination creates an excellent external environment for developing enterprise groups.

Enterprise groups combine the authority that the state has delegated to a lower level and the expanded authority of the enterprises. They are where macroeconomic control and microeconomic invigoration intersect. Ordinarily representing the better characteristics and qualities of Chinese enterprises, they are the hope of China's enterprises and ought to be beneficiary to most preferential policies. However, at present in China, the policy jurisdiction of a large number of enterprise groups is far more limited than their member units. The independent decision-making authority of the groups is restricted. If the competence of the groups to examine and approve investments is restricted, they cannot make unified plans, and since the unified remaking of loan amounts is divided according to locality, the groups cannot control loans and their repayment according to plan. Since they cannot hand over their finances to higher authority in unison, the same tax payment problems continue to

exist. There is also another problem. The various policies that the state grant to the groups are, when they reach the local level, obstructed by local policies (for example, the various protectionist policies). These problems both affect the integrated development of enterprise groups and restrict the development of member enterprises.

We think that the state should, on the one hand, expand the decision-making authority of the enterprise groups. To better bring into play the integrated function of the groups, qualified enterprise groups should possess even greater decision-making authority than all the expanded authority the state has stipulated for individual enterprises. On the other hand, perfecting the policies for the enterprise groups would enable the groups and the member enterprises to share, in greater and lesser amounts, the authority of the same policy. The jurisdiction of the enterprises should be less than that of the enterprise groups. For example, the enterprise group should have the dominant jurisdiction in examining and approving investments. We also have to establish laws and regulations concerning enterprise groups to provide them with legal guarantees.

3. We must strengthen the state's macroeconomic control and scientifically delineate the functions of the state and the enterprise.

Along with intensifying reform of the economic system, people are now exploring the relationship of state functions with enterprise functions and coming up with a great many new ideas. Generally speaking, everyone recognizes that "dual-level" macroeconomic control of the central government and localities came about because China implemented the system of "financial responsibility at the various levels." Under this system, the central government and the localities both exercise various types of administrative interference with enterprise groups, seriously affecting the normal development of the groups and binding them hand and foot.

To counter this reality, we think we should make our point of departure the intensification of reform of the system of organization, make clear the responsibilities of the various levels of government, establish jurisdictional boundaries, promote standardized government conduct, and eliminate excessive administrative interference in order to bring into full play the subjective initiative of enterprise groups predicated on their operating legally and paying their taxes according to regulation.

**Correctly Handle the Contradictions Between the Enterprise Groups and the Members, Explore Ways of Making the Transition From Managing a Single Factory to Managing Companies.**

China's enterprise groups are a new type of multilevel enterprise structure made up from many enterprises that have undergone realignment, readjustment, and transformation. They not only represent an expansion in size but improved quality as well. If we are to do a good job of managing enterprise groups, we must have excellent external conditions as well as a methodology for internal

management. However, because many enterprise managers lack experience in managing groups and frequently adopt factory management methods for a group, many problems occur in internal management. These problems urgently await our exploration.

1. Perfecting the structural set-up, strengthening the cohesiveness of the groups.

The structural set-up of China's enterprise groups and their formation are closely connected. There are now more or less two types of structures: the enterprise group whose nucleus is a large-scale key enterprise and whose structural set-up is often patterned after that of the main unit's and is in effect "one set of personnel, two signboards"; and the enterprise group whose nucleus is made up of many key enterprises and whose structural set-up is pluralistic and complex. The former often are groups that use traditional factory-management methods. The enterprise leadership holds dual positions concurrently, their division of responsibility is not clear, their efforts are inadequate, their efficiency is low, the group and the main factory as well as the main factory and its members are at a handicap, there is not a clear delineation of property, they are unequal in status, and there are concealed internal contradictions. The latter, although having overcome the above-mentioned shortcomings, has basically loose ties with its members, its structure is only a "castle in the air", and it lacks effective managerial authority and restraining authority in dealing with member enterprises. It awaits further perfection.

2. Doing a good job of correctly handling the relationship between centralized authority and decentralized authority among the groups.

Enterprise groups are made up from many enterprises and institutions which have status as legal entities. Doing a good job of handling the relationship between the centralized authority of group headquarters and decentralized authority of the member units is crucial to consistently maintaining group cohesiveness in coordinating between higher and lower levels and in developing enterprise groups. However, because in reality the degree of centralized authority and the degree of decentralized authority are inappropriate, the contradiction in the relationship between the headquarters and the member enterprises cannot be handled properly. Some put too much emphasis on centralized authority, causing the independent management of the member enterprises to be subjected to control, weakening their enthusiasm, reducing their competitive consciousness, and increasing their dependence on the group. Other groups put too much emphasis on decentralized authority, with each enterprise going its own way. The group lacks unified planning and a unified operating ideology. Its internal operations mechanisms are in disarray, and its management office acts blindly. It can be seen that, when the relationship between centralized authority and decentralized authority is poorly handled, it seriously affects the progress of enterprise development and that it is

absolutely necessary to maintain an optimum degree of balance between centralized authority and decentralized authority.

We think that the system of multiple legal entities within the groups should be gradually eliminated. Only one legal entity representation should be retained in a group, and the legal entity status of each member unit should be eliminated to genuinely effect integrated assets management and tax payments to higher authorities in unison. They should implement the six unifications of personnel, finances, materials, supply, products, and sales. Predicated on this, the groups are responsible for strategic objectives, the formulation of principles, and the use of funds and the control of their flow. They are responsible for the unified formulation of short-term and long-term group plans, for clearly defining the responsibilities, authorities, and benefits of member enterprises, and on this basis, for bringing into full play the enthusiasm of member enterprises, and for the creation of a rational industrial structure in accordance with the plans and requirements of the group set-up to thereby bring into play its integrated function.

3. Using economic means to manage the economy and to supplant the use of administrative means to manage the economy.

Enterprise groups are economic organizations that have emerged which suit the developmental needs of a commodity economy. As such, they should adopt managerial methods appropriate to a commodity economy. However, a number of enterprise groups still continue to use administrative methods in managing their groups, causing various abnormal problems and phenomena. Some groups of the single main unit pattern gratuitously utilize the fixed assets and loans from factories which have broken up and which were subsidiary to the main factory member, thus raising a contradiction of economic benefits between the group and its members. Other enterprise members of the service type, which lack an awareness of market exploitation, rely completely on services to the main factory and make money off the main factory, passing their time in a cozy nest of comfort.

The main reason these problems have emerged is because the concept of a commodity economy still has not genuinely penetrated the internal management of the enterprise groups. They are not using economic means to manage the economy. As a result, the member enterprises become dependent and the group headquarters become over-burdened, thus obstructing the development of enterprise groups. Administrative and managerial efforts must be made to resolve these problems. First, the economic activities of the member units must be strictly regulated according to the laws of a commodity economy and an exchange of equal value implemented. Second, an independent business accounting must be made for all internal member units, which must assume sole responsibility for profit and losses; units which are dependent must be pushed toward the market

and toward the public; and members must be trained in competitiveness and self-sufficiency.

### Price Management During Rectification

90CE0077A Beijing JIAGE LILUN YU SHIJIAN  
[PRICE: THEORY AND PRACTICE] in Chinese No 2,  
20 Feb 90 pp 3-7

[Article by Cheng Zhiping (2052 1807 1627): "Some Issues of Understanding Relating to Price Management Work During Rectification"]

[Text] At present, the whole party and the entire population are studying in earnest and implementing steadfastly the spirit of the Fifth Plenum of the 13th CPC Central Committee and carrying out the "Decision of the CPC Central Committee on Further Improving the Economic Environment, Rectifying the Economic Order, and Furthering Reform," determined to score a victory in these areas by working vigorously with one heart and one mind. It was emphasized at that meeting that any policy or measure must help stabilize the overall situation and restore social order. We must consider the broad picture in making any move, putting it before everything else. Special interests should yield to the general interest, immediate interests to the long-term interest. We should tighten our belts, share the difficulties of the state, and work hard to achieve the goals of improving the economic environment and rectifying the economic order.

Surveying the international and domestic situations, we believe political stability is indispensable to the long-term tranquillity of the nation and the consolidation and development of socialism. Political stability, in turn, is based on economic stability. The Marxist doctrine that the economy is the base, with politics its concentrated expression, has been totally vindicated by historical practice. Lowering the rate of price increases and ensuring basic price stability is an important prerequisite for stabilizing the political situation and maintaining steady economic development as well as a major sign of progress of economic rectification. In the course of improving the economic environment and rectifying the economic order, the entire party must unify understanding and thought and strive together to bring down the level of prices, which has soared in recent years. This is the number one objective of the drive to improve the economic environment and rectify the economic order. Below is a number of personal opinions on price management work during economic rectification.

1. Properly Integrate the control of commodity prices with the adjustment of the price structure.

Premier Li Peng said recently that "gradually reducing inflation and the rate of commodity price increases is a basic mission of economic rectification." Accordingly, price reform must take place systematically and selectively under good leadership amid strict control. Strictly controlling the rate of price increases is a critical political and economic issue since it can reassure the public,

develop the economy, and stabilize the political situation. In the period of economic rectification, in particular, we must not slacken our effort at all. Of course, even as we control prices, we must adjust the price structure continuously. If economic rectification is not accompanied by an effort to resolve the most glaring price irrationalities gradually, not only will it affect the production and effective supply of key commodities, thus depriving the current drive to control commodity prices and cure inflation of the necessary material base, but it will also bequeath to the post-economic rectification period an oversized task of adjusting the price structure. From the broader perspective of economic rectification, resolving the gross irrationalities in the price structure is also essential to achieving an overall balance in the economy and adjusting the economic structure. Price reform has no choice but go down the road of properly integrating the control of commodity prices with the adjustment of the price structure. Facts will put to rest the sheer nonsense in foreign news media that reform has come to a standstill in China.

Some people propose bringing down the price level drastically. This is unrealistic. For one thing, the necessary macroeconomic conditions are not in place. Moreover, it will certainly retard production development extensively and work against the achievement of an overall economic balance, which, in turn, will make it that much harder to curb inflation and push the nation's economy into stagflation. The rate of price increases cannot be lowered significantly in one fell sweep. To insist on doing so is bound to be counterproductive. "More haste, less speed."

In contrast, others say that we need not take the control of the rate of price increases seriously, that the rate can remain "elevated," and that price structural adjustment should stay one step ahead of economic structural adjustment. This is an awfully misguided view. To do so will be disastrous for our effort to stabilize the market, the financial system, and public confidence. This course of action is fraught with risk and has nothing to recommend itself.

Tightening macroeconomic control and achieving a basic balance in the macroeconomy is critical to successfully limiting price increases and gradually lowering the magnitude of such increases. At the same time, we must do well in agriculture and increase agricultural inputs to ensure the supply of the masses' basic daily necessities and maintain basic price stability. Furthermore, price control and regulation and price inspection and supervision should be carried out properly so that prices are slowly straightened out and wanton price increases and the indiscriminate collection of fees are brought to an end.

2. Properly integrate the rectification of the price system with the intensification of price reform.

Adhering to the Four Cardinal Principles is the foundation of the state while reform and the open policy is the

road toward national strengthening. Accordingly we must firmly stay the course. Besides sticking to the principle of combining economic planning with the market economy, adjusting the prices of a number of key commodities, and deregulating those of others, we must rectify the price system, eliminate pricing chaos in some areas, and establish a new socialist commodity price system. Rectifying the price system is an important part of price reform and must be given top priority. Some people say, "We are not afraid of price adjustment, only pricing chaos," which fully shows the urgency of rectifying the price system.

Some of the most glaring examples of the chaos in the present price system. Flaunting laws and regulations, some localities and departments jack up prices without authorization and expand the scale of capital construction by raising funds through price increases. Others put money before everything else; policy means nothing to them. They inflate prices and charge fees indiscriminately. Some enterprises take advantage of the imbalance between supply and demand to raise prices and engage in speculation, making huge profits in the process. Because of these practices, circulation has become a refuge for evil people and evil practices. A single commodity may have two prices, local wholesale price and nonlocal wholesale price. Because of the practice of charging a different price in another place, "commodities become tourists and prices snowball." Not only has this disrupted the price system, but it has resulted in enormous social waste.

The adjustment of the prices of basic goods and fees on infrastructural facilities must go hand in hand with the rectification of the price system. If we merely adjust prices without "tackling the chaos," not only will we be unable to achieve the goal of controlling the level of prices, but we will also fail in adjusting the price structure. "The thread cannot be cut and remains entangled even though you try to sort it out." "Sorting out silk threads improperly only entangles them further."

Combine the rectification of the price system with the intensification of price reform. The first step is to rectify the companies and clean up wholesale concerns. Not everybody should have a hand in the wholesale of key commodities impacting the nation's economy and the people's livelihood. Wholesale enterprises should not be casually allowed to open for business. The price differential system relating to key commodities in the circulation area should be defined. Restraints should be imposed to prevent wilful price increases. Regulations should be made to define what proper circulation is. Reselling for a profit in the same place should be banned, as should increasing prices level upon level to reap enormous profits. The second step is to crack down on the practice of increasing prices and collecting fees and charges arbitrarily. Some administrative departments charge all sorts of fees using assorted pretexts such as "generating incomes," "one industry nurturing another," and "dividing departmental functions." Such practices should be strictly prohibited. Units that

increase prices and raise funds to finance projects outside the plan and boost their employees' welfare funds must clean up their act in earnest. Some fees have been deregulated. In these cases, the schedule of fees must be fixed by the trade involved through negotiation with a different fee for each class. They must not be allowed to impose charges irresponsibly, to the detriment of the masses. The third stage is to gradually scale back the dual-track pricing system for capital goods. In recent years, the scope of the capital goods dual-track pricing system, the share of prices outside the plan, and the gap between prices inside the plan and those outside have all been expanding, with increasingly dire consequences for the national economy and social climate. As part of the rectification of the price system, the capital goods dual-track pricing system, especially the dual-track system for leading commodities, should be gradually pared down. However, we should realize that the existence of the capital goods dual-track pricing system is closely related to the planning management system and enterprise management system and is pivotal to the development of township and town enterprises. It has become the "lubricant" of economic operations in real life and an important basis for the distribution of interests. For this reason, we must examine each commodity carefully, taking a case-by-case approach. Plans should be worked out and implemented gradually. After a few years, we should have narrowed its scope or phased it out altogether, firmly and properly reducing the price differentials.

### 3. Properly integrate price reform with economic structural reform as a whole.

In the course of improving the economic environment and rectifying the economic order, we must press ahead with price reform. But the intensification of price reform cannot and should not be a "one man show." Nor should it lag behind, of course. The correct approach is coordinated reform, accompanied by the right fiscal, tax, banking, foreign exchange, and income distribution policies. The control of the macroeconomy and the reform of the economic system provide price reform with a favorable economic environment. The rectification of prices itself is also an important means to improve the economic environment. During the period of improving the economic environment and rectifying the economic order, all sectors including finance and banking have their own difficulties. There must be overall planning and mutual support between the different sectors. The price departments too should adopt an overall viewpoint and take into consideration the need to adjust the industrial structure. Price measures must promote the production of goods in short supply. Banking conditions must be taken into account. Price measures must speed up the withdrawal of currency from circulation and contribute to financial stability. The budgetary situation too must be considered. Price measures should help reduce or eliminate the budget deficit over time, thereby balancing revenues with expenditures. Needless to say, such measures must abide by the law of value and the

price policy. The idea is not simply to increase revenues for the government, but to broaden its revenue sources by encouraging economic development and promoting profitability. In addition, price measures must be integrated with enterprise reform and contribute to perfecting the enterprise contract management responsibility system, raising productivity, and helping enterprises cope with wage and price reforms.

### 4. Properly integrate the current drive to improve the economic environment and rectify the economic order with long-term planning.

As we straighten out prices, we must look ahead and behind and plan comprehensively, taking all factors into consideration. Price management work for the current year must be combined with five and ten year planning, particularly the goals of the period of economic rectification for the next three years and beyond. Whether it is the control of the overall price level or the structural adjustment of the prices of key commodities, they must be planned and decided in accordance with long- and medium-term plans so that they will be in line with the objectives in the plan year after year. This will make our work more scientific and predictable and is the only way to evaluate results on a yearly basis and "tote up the achievements at regular intervals," increasing our confidence to forge ahead.

Some people nowadays suggest making price rectification our vanguard. Use the present opportunity, they argue, to solve all kinds of price problems in one bold stroke. "Accomplish the whole task in one stroke." This idea sounds appealing. In reality, though, when price changes are excessive, they will prove unbearable to all quarters politically and economically. While we must realize that the rectification of prices is inevitable, its implementation is extremely complex and difficult. "Be bold but cautious." This is the correct attitude we should take. On the one hand, we must push ahead firmly and not be afraid. On the other hand, we should assess the situation, further the favorable conditions, remove the obstacles, plan meticulously, and make steady advances. In the real economic world, there is an array of complex and ever-changing factors. Things are highly predictable. For these reasons, we must stick to the direction of improving the economic environment and rectifying the economic order unwaveringly. Our procedures must be forceful but steady. We must "cross the river by hanging onto the rocks, one step at a time." Under no circumstances are we to rush headlong into action, expect instant success, or move rashly with no regard for consequences. After we have drawn up a long-term plan, we must be ready to make the necessary suitable adjustments. Only by adhering to the dialectical materialistic position and "seeking-truth-from-facts" attitude can we "scale new heights and see for a thousand li," certain of success.

### 5. Properly integrate the necessary price management with sound price legislation.

Appropriate price control is indispensable even as we continue to adjust and deregulate prices in the course of improving the economic environment and rectifying the economic order. Adjustment and deregulation, on the one hand, and control, on the other, are dialectically united to begin with. It is wrong to control to death what should not be controlled, just as it is wrong to let prices float freely and fail to intervene where control is justified. Be that as it may, price control must go hand in hand with the improvement of the price legal system so that we will be able to deregulate without causing chaos and control in accordance with the law, thereby putting whatever price management that is necessary on a legal footing.

The State Council promulgated the "Price Control Regulations of the People's Republic of China" in September 1987, a big boost to the development of a socialist planned commodity economy. But the "regulations" do not incorporate the changes in circumstances in recent years. Here and there the "regulations" need to be further amplified and made more specific. To fill the gaps, therefore, we need to draw up a number of separate price regulations and market regulations. With the "regulations" as a framework, moreover, we must formulate a "price law" to perfect the price legal system gradually and further standardize all kinds of pricing behavior.

It should be seen that price deregulation must not spontaneously evolve into a new price system under the socialist commodity economy. Only legal and institutional regulation can give rise to new price regulatory and control mechanisms. To improve the regulatory and control mechanisms for deregulated prices, for instance, some localities in recent years have introduced an "enterprise price-setting permit system." To be granted a permit, an enterprise must put a special person in charge of prices, set up a price management office suited to its pricing function, appoint full- or part-time price personnel, and be equipped with the necessary pricing and price management system. After introducing the "enterprise price-setting permit system," some localities have seen an improvement in the price management mechanisms within enterprises. The standardization of enterprise pricing behavior has been expedited while enterprises have been encouraged to operate with legal means, generating better economic and social results. The upshot is a good price system and circulation system. These facts prove that the establishment and improvement of the price legal system has been instrument in advancing price management work.

6. Properly integrate the suitable concentration of price management authority with management at different levels.

Reform is the self-improvement of the socialist system. Years of practice prove that full-fledged economic planning is unworkable because it controls prices excessively and rigidly. Equally unworkable is a full-fledged market economy where prices are allowed to drift. We must combine economic planning with market regulation.

When it comes to the specifics of the price management system, the current system of having three kinds of prices—state-fixed prices, state guidance prices, and market prices—is feasible. The current practice of having the state set some prices to be managed at successive levels of government above the above is also necessary.

In the long haul, price reform should continue the approach of combining adjustment with deregulation, management (economic administrative management and intervention where necessary,) and participation (the participation by the state economy in regulation to fulfill its role as the main player). The principle of the state setting prices to be managed by successive levels of government should be closely followed. In the period of improving the economic environment and rectifying the economic order, however, the power to manage prices should not be fragmented. Large-scale deregulation therefore is inadvisable. According to the instruction by central leading comrades that "we may strengthen or broaden planning in the period of adjustment," we must concentrate the power of price management as appropriate, an important way to beef up macroeconomic control as well as a major guarantee that price structural adjustment will be expedited, that repercussions of price adjustment for key commodities will be limited, and that price reform will be intensified. It should be made clear that the emphasis on concentrating management power appropriately means essentially that the power of the central government should be suitably enhanced, that the State Council should examine and approve the prices of an expanded range of commodities for a specified period of time, and that ceilings should be imposed on the prices of some commodities nationwide. The purpose of taking these steps is mainly to intensify the control of prices of bulk commodities and realize demands that the rate of price increases be reduced.

The suitable concentration of price management power affects the interests of localities, sectors, and enterprises. As such we must begin by unifying the ideological understanding of leading cadres concerned. China is a unified nation with a unified economy. Price movements in one locality will inevitably influence other localities and even the entire nation. Changes in the price of a commodity will unavoidably influence other related commodities and perhaps the market as a whole. The control of planned prices must abide by the principle of democratic centralism. Before deciding on a plan on the adjustment of the prices of key commodities, the central government should conduct in-depth studies in conjunction with the localities and different sectors and solicit opinions extensively from all quarters, doing its best to draw on collective wisdom, and absorb all ideas so that the resultant policy is scientific and democratic. Once a decision is taken by the central government, the localities, sectors, and enterprises should follow it closely. They should subordinate themselves to the general situation, preserve the authority of the central government, operate in accordance with the unified national plan,



seek their own prosperity amid overall development, and contribute to the overall situation.

The appropriate concentration of price management power, on the one hand, and reform and openness, on the other, are not mutually exclusive. Prices already deregulated should remain so. Sino-foreign joint ventures should be handled in accordance with policies, laws, and regulations.

7. Properly integrate price adjustment with market stabilization and public reassurance.

During the period of improving the economic environment and rectifying the economic order, prices remain a means of leverage in the economy. Price movements, where justified, are essential to adjusting the industrial structure and maintaining the overall economic balance. However, everything must be done to avoid upsetting public psychology and maintain market stability. Wanton price increases by the sectors, localities, and individuals for their own special interests shall be strictly prohibited. The general price level should remain relatively stable despite the adjustment of some prices.

To prevent price changes from affecting market stability and public confidence, we must work hard to keep the prices of the masses' daily necessities basically stable. In the case of some commodities, we must do a good job in production regulation and control. With success on that front, we can then announce flat out that prices will not go up. In large and mid-sized cities, everything must be done to stabilize the prices of popular vegetables. This is the most important part of the drive to stabilize the prices of the masses' basic daily necessities. Over the past few years, many cities have conducted "vegetable market" engineering and set up non-staple foodstuff price regulation funds. These have worked very well. We should carefully review their experience and disseminate it vigorously. Second, we must go about the price adjustment of the more essential commodities painstakingly. Planning must be meticulous and the procedures must be safe. The timing of adjustment must be chosen most carefully in order to generate the best social and economic results while producing the least disturbance. Third, we must do a good job in publicizing and explaining prices to the masses. Price publicity must combine openness with stability. Whatever should be kept confidential should be kept confidential so as not to affect market stability. If something can be made known, it should be announced to the public at the right moment. In some cases, public discussion may be invited. In others, an explanation should be offered to the masses. In conducting publicity or making explanations, we must be truthful and candid. We must rely on and trust the masses, follow the mass line, and entrust the party's policies to the masses to win their understanding and support.

8. Properly integrate price work with the improvement of the quality of price cadres.

This year is a critical one in the nation's drive to improve the economic environment and rectify the economic order. Central leading comrades demand that all rectification tasks be accomplished. We must deliver to the people what we promise in order to earn their trust. Price departments are faced with a complex situation and assume heavy responsibilities. They must further rely on the leadership of the party and government, coordinate successfully with other agencies involved, reinforce their overall viewpoint, and make even greater contributions to the nation. Ideological and political work must be stepped up. Cadres must be educated to adhere to the Four Cardinal Principles, reform, and openness, to oppose bourgeois liberalization firmly, and to tighten their belts, working together with one mind in the interest of sustained, steady, and coordinated development. They must change their work style, immerse themselves among the masses, go deeply to the grassroots, conduct studies, solve problems, increase their sense of responsibility, and put an end to the state of nobody being in charge. The drive to ensure honesty in government must be intensified. Cadres should be totally upright and incorruptible. They must enforce the law strictly and battle irreconcilably with evil trends and corrupt phenomena. Leading cadres must intensify their theoretical study of Marxism-Leninism and Mao Zedong Thought, examine closely the writings of Comrade Deng Xiaoping, raise their ideological understanding, and defend the socialist system on their own initiative. Under the leadership of party and government departments at all levels, price cadres must rouse themselves to struggle assiduously and succeed in price reform in the period of economic rectification, working with one heart and one mind. Battling unceasingly, they can contribute to the endless development and improvement of the socialist system and bring out its unmatched superiority.

#### **Finance Ministry Official on Improving Economic Results**

90CE0210A Beijing JINRONG SHIBAO in Chinese  
24 Apr 90 p 3

[Article by Ning Xuepiung (1380 1331 1627), Director of the Materials Science Institute, Ministry of Finance: "Several Views on Improving Economic Results"]

#### **[Text] I. On the Basic Concept of Economic Results**

On the concept of economic results, a fairly accepted formulation is that economic results mean the efficiency of economic activities and the interests they obtain, "the relationship between cost and effectiveness," "the relationship between input and output," and "the relationship between payout and income"—in brief, all of them meaning the contrasting relationship between labor consumption and labor gains.

In stressing the improvement of economic results, we demand that for the least possible consumption of labor and materials there be produced more products that meet the needs of society. Herein are three factors: 1) lowering labor consumption; 2) rational use of materials;

and 3) producing products that meet society's needs. When looking at China's present circumstances, we see that there are many issues in these three aspects and there is very large potential in them.

## II. Practical Effects of Improving Economic Results

The central issue behind all the contradictions in current economic activities is the issue of economic results. Among the various problems in the real economy, it seems as if there is not a single one that is not related to economic results. Viewed from the angle of the balance in supply and demand: 1) production and marketing are disjointed, goods do not satisfy needs, and there is a large amount of commodity overstocking; 2) high consumption during the production process wastes limited resources; and 3) materials and funds are tied up in surplus inventories. All of these things make total demand larger than total supply, thereby sharpening the contradiction in the national economy of the balance in the total amount.

A look at the process of social reproduction shows that: 1) in the production process, high consumption, surplus inventories and stockpiling exacerbate shortages of certain materials and increases increases the impulse to expand production, thereby promoting expansion of the scale of capital construction investment, which is detrimental to the reduction of the scale of investment in fixed assets; 2) surplus inventories and stockpiling of key material elements increases pressure on the supply of funds and promotes currency inflation; and 3) due to high consumption, stockpiling, and low results the national economy—this "cake"—is unable to grow, surplus products are limited, and the growth of the country's financial revenues is restricted, thereby causing mutual contention for profit by all quarters, and sharpening the contradiction in the distribution of interests.

From the above analysis we can see that if economic results are not improved, it will be difficult for the national economy to get out of its predicament. To expand the accumulation of funds, to accelerate the process of socialist modernization, to achieve as soon as possible the strategic goals of socioeconomic development, and to improve the people's standard of material and cultural living, we must devote ourselves to the improvement of economic results.

## III. Several Questions That Need Attention in the Improvement of Economic Results

1. To improve economic results, in economic construction in the present stage we must persist on the path of making intension-enlarged reproduction primary.

From the macro view, we should keep in mind the technological transformation and the rebuilding and extension of existing enterprises. Only when necessary should we set up new enterprises.

From a look at the industries, we should keep in mind merging and integrating the existing enterprises, should

redispose and optimally combine the amount of deposited assets, and should not be keen on doing something new.

From a look at the enterprises, we should keep in mind the tapping of inner potential, and correctly integrate planned technological transformation with the daily small reforms, apply value projects, readjust the product structure, and make the optimum contrast between the product's function and cost.

2. We should attach importance to the creation of surplus product value.

The actual situation is: the state-owned natural resources make up deficiencies, and the compensation for fixed asset expenditure is inadequate. Some enterprises show false profits but have real losses, some financial departments have a large amount of overspent and not yet made up loss accounts, and in some industrial and commercial enterprises there is a huge number of stored commodities that are damaged, lost, changed, and wasted. All of these things either artificially expand the share of surplus products or erode the surplus products; in addition there is a large amount of over-distributed natural resources, posing a hidden danger to economic activities. Ignoring all of this cannot be tolerated.

3. We must pay attention to the unity between macroeconomic results and microeconomic results, as well as the economic results, social results, and ecological results.

We should, under the premise of promoting technological progress, strengthening the building of socialist spiritual civilization, insuring social stability, rationally deploying productive forces, rationally using society's resources, providing good environmental protection, and safeguarding the ecological balance, improve economic results, and increase the state's financial resources and the interests of the enterprises and their staff and workers.

We must correctly calculate and treat the enterprises' economic results and their contributions to the state.

The kind of technical economic indices to use in order to judge economic results is a complex question awaiting thoroughgoing research. Some enterprises and economists, in order to explain well the enterprise's results or the heaviness of the burden on the enterprise and the greatness of its contribution to the state, describe the enterprise's various kinds of tax revenue handed over to the state, as well as its profits and costs as economic results created by the enterprise's staff and workers, and its contribution to the state, regarding them as the enterprise's burden. Some people even say that the state takes 80 to 90 percent of an enterprise's net income. It is necessary to make a specific analysis of these ideas.

I think that the proportion of net income taken by the state is too large for some enterprises having good economic results. There are various causes for this

situation: 1) China's finances now are basically still the semi-supply type, and wage distortions and price distortions are the props for a large amount of price subsidies and enterprise loss subsidies. Without financial subsidies every year of nearly 100 billion yuan, the national economy basically would be unable to operate normally. These subsidies need to be deducted from society's total net income, and it is impossible to deduct them from every enterprise's net income. Therefore, the total net income of an enterprise is bound to be greater than society's net income. This is not calculated in the accounts of every enterprise. 2) The deviation in price and value caused by the irrational price system entails transfer between departments of the net income arising during value redistribution. This is also difficult for each enterprise to calculate clearly. The income transferred to an enterprise from another department naturally cannot be regarded as income created by the enterprise itself. That part of the enterprise's income taken by the state also cannot be regarded as the enterprise's contribution and burden. 3) The differential income brought to the enterprises because of their unequal objective conditions in natural resources, geographical position, technological composition, and state of equipment are not related to the subjective efforts by the enterprises and their administrators and producers and ought to be readjusted by the state through the form of tax revenue. That part of the income taken by the state as tax revenue cannot be oversimply regarded as economic results created by the enterprise, and also cannot be regarded as the enterprise's contribution to and burden for the state.

Furthermore, China's state-owned resources, including land, natural resources, forests, water resources, and so forth, are basically used gratis. The large amount of compensation-type costs and expenses for environmental protection and pollution control connected with the exploitation and use of these resources are not the enterprises' burden. At the same time, for the survival and development of the enterprises, the state has created a large number of external conditions, including public security, transportation and communication, social security, and so forth. When considering its own economic results and its contribution to the state, every enterprise should not overlook this point.

### **Social Demand Brought Under Control in First Quarter**

*OW0505143190 Beijing XINHUA Domestic Service  
in Chinese 0803 GMT 29 Apr 90*

[Text] Beijing, 29 Apr (XINHUA)—Eight major economic indicators for the first quarter of this year jointly announced today by the State Statistical Bureau, the State Planning Commission, the Ministry of Finance, and the People's Bank of China showed that China's social demand was under control, fixed-asset investment was basically at the same level as in the corresponding period last year, bank loans were loosened, and wage increases further reduced.

In the first quarter, units of public ownership invested 20.4 billion yuan in fixed assets, about the same as the corresponding period last year. Investments in 15 of the 29 regions, not including Tibet, decreased in comparison with the same period last year. Investments in the other 14 regions increased in varied degrees.

At the end of March, balance of bank loans was 1.2571 trillion yuan, 16.1 billion yuan more than at the beginning of the year. By the end of March, bank loans were 18.3 billion yuan more than the same period last year. These loans were mainly used to stimulate industrial and agricultural production. Balance of loans in 20 of the 30 regions was more than that at the beginning of the year. The amounts of increase were greatest in Shanghai and Liaoning, where industry was well developed. Balance of loans increased by larger margins in industrial bases with strong economic power and many backbone enterprises because of their greater ability to circulate funds.

In the first quarter, the total amount of wages of staff members and workers in the whole country was 62.2 billion yuan, eight percent more than the same period last year. However, due to slower price increases, the total amount of wages, after adjustment for the increase in staff members and workers' living expenditures and in the price index, still increased by 5.5 percent. This means that, taking staff members and workers as a whole, their actual income still increased to a certain degree.

However, because of slow increases in industrial production and a sluggish market in the first quarter, economic efficiency continued to drop.

In the first quarter, the all-personnel labor productivity of state-owned industrial enterprises operating on an independent accounting system was 4,320 yuan, 2.2 percent lower than the same period last year. Costs of comparable products of budgeted industrial enterprises of public ownership increased by 6.5 percent over the same period last year. Percentages of profit and tax in the total amount of sales of these enterprises decreased in all parts of the country. In addition, percentages of profit and tax in the capitals of these enterprises were lower than last year across the country. Because many enterprises were not in full operation, which prevented them from using energy efficiently, energy consumption for turning out every 10,000 yuan worth of products by industrial enterprises at and above county level increased by 5.17 percent over the same period last year.

The State Statistical Bureau and the State Planning Commission pointed out: In order to reverse this adverse situation as quickly as possible, enterprises in all localities are urged to conscientiously carry out the following three jobs: First, get rid of the negative thinking of waiting for, relying on, and asking for help; step up efforts to readjust product structure; conduct more market investigations and studies; increase production of readily marketable products; and strive to expand the market. Second, strive to sell products in stock, and sell

at reduced prices those products whose value decreases as time goes by, in order to reduce losses. Third, enterprises with appropriate conditions should make efforts to develop international markets.

### **New Understanding of Plans, Market Needed**

*HK0506065390 Beijing JINGJI RIBAO in Chinese  
9 May 90 p 1*

[Article by Wang Guiwu (3769 2710 0063), Executive Secretary of the China Society for Research on Economic Structural Reform: "It Is Necessary To Have a New Understanding of 'Plan' and 'Market'"]

[Text] In the past at the mention of plans, many people thought that all national economic activities should be governed by state plans and strictly controlled by mandatory plans. This understanding has become outmoded. When talking about plans now, we refer to mandatory and guidance plans. These plans are flexible, not rigid, and are positive, not negative. They refer to a certain scope, not to all plans. In the past the word "market" was equated to an anarchic, unplanned, unorganized, disorderly, and spontaneous market. As a result a market was always regarded as something based on private ownership and as something destructive to state plans. Therefore people were afraid to mention "market." The market we are now referring to is a state-led, planned, organized, and orderly market.

How should we form a correct combination between "plan" and "market?" When the economic base is weak, the social productive forces are at a low level, and economic management is poor, it is advisable to carry out regulation through state planning as much as possible with occasional regulation through the market. When the economic base is strong, the social productive forces are developed, and economic management is good, it is advisable to carry out regulation through the market as much as possible with occasional regulation through state planning. Different combination methods should be applied to different regions. For example, in developed coastal regions regulation through the market can be applied as much as possible with occasional regulation through state planning; in northwestern and southwestern remote areas regulation through state planning can be applied as much as possible with occasional regulation through the market.

### **Bureau Releases Economic Statistics for April**

*OW2605143490 Beijing XINHUA Domestic Service  
in Chinese 1107 GMT 17 May 90*

[Text] Beijing, 17 May (XINHUA)—According to the statistics released by the State Statistics Bureau today, China's industrial production picked up, commodity prices were stable, the momentum of export maintained, and foreign exchange reserves continued to increase in April. Sales were stable but remained sluggish, and improvements were not evident in reducing the inventory of unsold manufactured goods, in increasing profits, and in alleviating the seriousness of financial difficulties.

The total industrial output in April reached 164.6 billion yuan, a growth of two percent over the same period of 1989 on the basis of fixed price. The output of energies, rolled steel, nonferrous metals, caustic soda, potash, chemical fertilizer, and insecticides increased from 4.2 percent to 21.2 percent; the output of some light industrial goods and textile goods picked up somewhat; and the output of machinery and electrical goods as well as color television sets, refrigerators, and washing machines continued to drop sharply.

According to the statistics, state-owned enterprises invested 30.3 billion yuan in fixed assets during the January-April period, or about the same as that of the same period a year ago, but investment in capital construction projects relevant to coal production; transport, postal services, and telecommunications services; cultural, education, and public health services; and scientific research increased substantially. During the first four months, state-owned units started 2,484 new construction or reconstruction projects, or 678 projects more than the same period last year. The total size of all projects under construction was 12 percent larger than that of the same period last year.

Export has continued growing since the beginning of the year, and the growth was substantial. According to customs statistics, in April the nation exported goods worth \$4.8 billion, or 21.9 percent higher than that of the same month last year. During the same period, the nation imported goods worth \$4.3 billion, or a drop of 25.8 percent. During the January-April period, the nation exported goods worth \$15.6 billion, up 14.6 percent over the same period in 1989, and imported goods worth \$14.3 billion, a drop of 17.8 percent. As for goods on which payments were made in foreign exchange, exports were higher than imports by \$1.65 billion.

The money supply was not as tight in April, during which more cash was recalled from circulation. Compared with the same month last year, the amount of credits for the industrial and commercial sectors and township enterprises increased in varying degrees in April. Because of more credits and liquidation of debts between enterprises, enterprises had more money at their disposal and problems of cash shortage were somewhat alleviated.

During the first four months this year, people's savings increased 73 billion yuan, or 32 billion yuan more than the same period last year. The total payroll of workers during the January-April period was 83.1 billion yuan, up 8.6 percent over the same period last year. Then total amount of cash bonuses issued during the first four months this year was 14.4 billion yuan, or 17.3 percent of the total payroll; this figure was 18.3 percent during the same period in 1989.

In April, sales were stable, but remained sluggish; and commodity prices were stable. The total retails of consumer goods in April reached 66.8 billion yuan. Compared with the same month last year, it was a decrease of 3.3 percent; the drop in March was 4.9 percent.

Owing to sluggish sales, departments handling domestic trade were cautious in their purchases; and although the state urged the commercial departments to act as "reservoirs," the call was not effective. The amount of industrial goods purchased by departments handling domestic trade in April was smaller than that of March.

Compared with the same month last year, the cost of living in 35 large- and mid-size cities increased 4.6 percent in April. The 14.1 percent increase in vegetable prices and the 15 percent increase in services constituted a rise of 2.4 percentage points of the total increase. Commodity prices also rose steadily.

According to statistics analysts, economic work should now emphasize on speeding up the restructuring of production patterns, increasing profits, and upgrading the production technology. They say that efforts should be made to guard against hastiness for success and high growth at the expense of output value.

## PROVINCIAL

### Eastern Hebei Ideal Site for Steel Plant

90CE0216A Shijiazhuang HEBEI RIBAO in Chinese  
15 Apr 90 pp 1, 3

[Article by Li Wanlong (2621 8001 7127) and Kong Fandou (1313 4907 2435): "Eastern Hebei—Ideal Site for Building a Large-Scale Steel Plant With Adequate Domestic Resources"]

[Text] On 14 April Hebei Xia Meicheng [1115 4168 0015], Deputy Manager of the Province Metallurgical Enterprise Group Company, Wei Zhenjiang [7614 2182 3068], Vice Chair of the Tangshan City Planning Commission, and Huang Xinnong [7806 2450 6593], Deputy Manager of the Tangshan Steel Company, told an investigation team of Japanese specialists that Eastern Hebei has the superior conditions necessary for building a large-scale steel plant and discussed such ideas in planning and building a large-scale steel plant as siting, production scale, and product plans. Using a great quantity of full and accurate materials they explained that Eastern Hebei has abundant iron ore, the auxiliary materials used in metallurgy, energy (coal, electricity, petroleum, natural gas, and water), communications in all directions, has nearby harbors to the east, south, and west (at Qinhuangdao, Tangshan, and Tanggu), and in addition has the heavy-industry city of Tangshan, which has already opened up to the outside, and the coastal open city of Qinhuangdao for support. It could be said to be an ideal choice for building a new large-scale steel plant which uses domestic resources.

#### Iron Ore

The first consideration in building a large-scale steel plant is sources of ore. There are abundant iron ore resources in Eastern Hebei in Qian'an, Qianxi, Luan County, Luannan, Zunhua and in Lulong, Changli, and Funing. There are 5.47 billion tons of proven reserves, of which the majority is

magnetite that can be open-pit mined, the average geologic grade of the ore is about 30 percent. The \*\*Sijiaying Iron Mine [I'm not sure if this is a name or means 'privately owned iron mine'] in Luan County has industrial reserves of 1.45 billion tons. Through many years of prospecting, testing and research they have developed mining conditions and can build synchronously with the Jidong Iron and Steel Complex. In over 10 places there are large- and medium-sized mines that are now being mined or are able to be mined. The industrial reserves are about 600 million tons. These can fully satisfy the ore needs of an Eastern Hebei steel plant.

#### Auxiliary Metallurgical Materials

Building a large-scale steel plant also requires such auxiliary materials as the dolomite and limestone needed for smelting iron and steel. Eastern Hebei has abundant resources of limestone: reserves are as much as 527 million tons, including 293 million tons of industrial reserves that are surface deposits and easily mined. The abundant reserves of dolomite in the Yutian-Zunhua region include an especially large deposit at the Weijia-jing dolomite mine in Zunhua which contains industrial reserves of 180 million tons. This mine has a production capacity of as much as 210 thousand tons per year. Thus the supply of dolomite and limestone needed by an Eastern Hebei steel plant is almost satisfied.

Steel production requires the consumption of large amounts of energy (including coal, electricity, petroleum and natural gas.) Assurances of the necessary quantities of energy are an important external condition and a limiting factor in developing the steel industry. Eastern Hebei has a rich endowment of energy. The Kailuan Coal Mine is China's largest production base for coking coal and rich coal. This mine's proven reserves are 3.8 billion tons, of which 2.6 billion tons are rich coal and 1.2 billion tons is gas coal. The gas coal and rich coal needed by an Eastern Hebei steel plant can be supplied by this mine, and the power coal can mostly be supplied by the Eastern Hebei region. In terms of electricity, the Tangshan Power Company is currently one of China's larger thermoelectric power plants. The rated capacity of the Douhe, Tangshan, and Xinqu power plants that comprise it is 2.08 million kw [kilowatts]. According to plans, Tangshan's rated capacity will increase 3.1 million kw, i.e., the newly built second Douhe plant's 1.2 million kw, the newly-built Wangtan plant's 1.2 million kw, and the expanded Fengrun plant's 0.7 million kw. The coastal counties of Eastern Hebei have abundant petroleum and natural gas resources. Natural gas reserves are roughly 50-70 billion cubic meters which can be used.

#### Communications and Transportation

Ease of communications is an important consideration in building a steel plant. In Eastern Hebei there are three railway trunk lines: the Jing-Shan [Beijing-Tangshan], Jing-Qin [Beijing-Qinhuangdao] and Da-Qin [Datong-Qinhuangdao]. Within the region there are also local railways: Tangshan to Zunhua, Shuichang to Beijiadian,

Hangu to Zhangzhuangzi, and Tuozitou to Tangshangang that connect with state main trunk lines so that railway transport is very open. The searoutes are Qinhuangdao and Tangshandao, which is currently under construction. Highways connect in all directions. The two main highways from Shanhaiguan to Guangzhou and Beijing to Haerbin connect the borders. There are dozens of provincial-level highways, such as Tangshan to Xuanhua and Pingshan to Daqinghe. In addition county level highways and numerous rural and township roads link Eastern Hebei with the broad area of Beijing, Tianjin, North China, and Northeast.

### Water Resources

Human life and industrial production cannot do without water. The steel industry needs and consumes a great deal of water. Eastern Hebei's water resources are abundant and include excellent water supply conditions. Eastern Hebei's water resource is the Luanhe water system, which for many years has had an average flow of 4.78 billion cubic meters. The capacity of the Panjiakou and Daheiding reservoirs is 1.95 billion cubic meters. There are two water supply sources for an Eastern Hebei steel plant: the first is the about-to-be-constructed Taolinkou Reservoir situated upstream on the Qinglonghe, an important branch of the Luanhe. The state has already made arrangements for this. After the reservoir is constructed, it will supply 260 million cubic meters of high quality surface water. The second is shallow underground water near the Sijiaying Iron Mine. These reserves are 330 million cubic meters. Underground water resources are plentiful due to widespread rainfall.

### Support Conditions

The Eastern Hebei cities of Tangshan and Qinhuangdao are extremely important support conditions for designing and constructing an eastern Hebei steel plant. Tangshan is a developed industrial city in terms of the coal, steel, electricity, building materials, and machinery industries that play an important role in North China and nationwide. It is also the heavy industry base for our province. Energy-producing enterprises include the Kailuan Coal Mines and the Tangshan Electric Power Plant. Qinhuangdao City is one of the earliest coastal cities China opened up to the outside. Qinhuangdao Harbor is China's largest energy shipping harbor. Currently, its annual handling capacity is 80 million tons and it can dock 100 thousand ton cargo ships.

Tangshan in Eastern Hebei is an important North China grain producing area. Its output of wheat, corn, and paddy rice is 2.65 million tons, which has earned it the name "Eastern Hebei granary." The large volume marine aquaculture developed recently in the coastal areas has turned Tangshan City into a land of plenty worthy of the name. All of this provides reliable livelihood guarantees for designing and building the Eastern Hebei steel plant.

In the past dozen years relevant state departments and units have arranged for specialists to conduct many studies and investigations that have uniformly held that there are adequate domestic resources and that Eastern Hebei is the best choice for building a new large-scale joint steel enterprise and should be promoted first.

### Three Candidates for a Site

There are three sites in Eastern Hebei suitable for building a large-scale steel plant: the Wangtan and Tanggangxinqu sites in Leting County and the Jiulongshan site in Changli County.

Hebei has begun to carry out key comprehensive coordinated development in the Wangtan seashore in Leting County on the basis of the opinions of numerous specialists who have studied China's land reorganization and development plans. This will gradually turn the Wangtan region into a harbor and industrial city which has a railroad, large-scale harbor, large-scale power plant, and large-scale steel plant as its main body. The local railroad between Tuozitou and Tangshan Harbor is 77 kilometers long. It is a national second-grade single-track line that carries 11 million tons annually, and there is room for expansion to multiple tracks. At Tangshan Harbor they are currently constructing bulk cargo and mixed cargo berths for handling 5,000-ton cargo ships; the port is expected to begin operating in 1991. Plans call for the construction of a large-scale 35,000 ton berth in the Eighth 5-Year Plan.

In the past few years engineering geological surveys and topographical measurements have been carried out on the three sites for the Eastern Hebei steel plant. The Wangtan site is 54 kilometers from the Sijiaying Iron Mine, Tangshan Harbor is 70 sea miles south of Qinhuangdao harbor, and 76 sea miles north of Tanggu Xingang. There are five major advantages of this site for an Eastern Hebei steel plant: first, the Wangtan region has 300 thousand mu of saline wasteland so that building the plant here would use little arable land, displace few people, and ample room for future development of a steel plant. Second, there are both land and sea shipping routes. Third, there is sea water that can be used for cooling the power plant, thus saving on fresh water. Fourth, the Wangtan region has much land but sparse population and it is on the Bohai so that the environmental capacity is considerable; thus, the impact of pollution on agriculture and local residents will be extremely small. Fifth, the basic earthquake precaution intensity is 7, thus saving investment.

The Tanggang Xinqu site is about 10 kilometers from the old factory district and close to Tangshan City. Support conditions are good and can save on investment. However, building another large-scale steel plant in this location may have an impact on urban construction in Tangshan City and the environment. In addition the basic earthquake precaution intensity of this site is 8.

The Jiulongshan site is 63 kilometers from Qinhuangdao, 3.5 kilometers from the Jing-Shan railway, and 18

kilometers from the northern part of the Sijiaying Iron Mine. The area is open and flat and has a basic earthquake precaution intensity of 7. This site is very close to the Sijiaying Iron Mine could use pipes or conveyor belts for transporting ore concentrate. It is not far east to Qinhuangdao and marine shipping is also convenient.

Summarizing the above, we can see that Eastern Hebei is the most ideal place with adequate domestic resources for constructing a new large-scale steel plant. This on-the-spot investigation by the group of Japanese specialists may help relevant state departments to carry out scientific and democratic macro-decision making. The people of the province hope that the key project of the Eastern Hebei steel plant will move from the blueprint stage to reality as quickly as possible. They are willing to contribute their strength to this project which will create wealth for the people and promote China's socialist modernization!

### **Gansu Holds Forum on Economic Work**

*HK1505105990 Lanzhou Gansu Provincial Service in Mandarin 2300 GMT 13 May 90*

[Text] The Gansu Provincial CPC Committee and the Gansu Provincial People's Government jointly held a forum on economic work yesterday.

At the forum, the Gansu Provincial CPC Committee and the Gansu Provincial People's Government put forward a series of specific measures aimed at invigorating the provincial economy, enlivening circulation, and promoting provincial industrial development.

Li Ping, vice governor of Gansu Province [as heard], delivered a report on economic development and industrial production.

In his report, he said that in order to maintain a steady and appropriate growth in industrial production, the departments concerned of the Gansu Provincial People's Government have studied and formulated a series of specific measures aimed at improving marketing, readjusting structure, increasing production, and maintaining overall stability. These measures include: 1) to properly increase loans in circulating funds; 2) to strengthen management of interest rate and implement differential interest rate; 3) to adopt flexible and effective marketing policies and measures to sell overstocked products and invigorate the market; 4) to bring into full play the role played by commercial, supply and marketing, goods and material departments, with a view to increasing purchase and marketing of local industrial products; 5) to readjust product mix, speed up development of new products, and fulfill all capital construction and technological transformation quotas; 6) to continue to help closed or semi-closed enterprises to resume production; 7) to carry out in-depth campaign of "double increase, double economy," strengthen enterprise management, and increase economic results; 8) to practically improve work style and strengthen leadership, organization, and coordination of production.

Zhang Wule, vice governor of Gansu Province, also delivered a report on financial revenue and expenditure at the forum.

In his report, Vice Governor Zhang Wule analyzed the disheartening situation concerning Gansu's financial revenue in the first four months of this year and put forward a series of feasible and practical measures aimed at changing this situation in light of the realities in Gansu.

Vice Governor Zhang Wule said that Gansu's financial revenue in the first four months of this year stood at 790 million yuan, accounting for 23.26 percent of Gansu's annual financial revenue plan and representing a 5.6 percent decrease compared with the corresponding period of last year. Gansu's financial expenditure in the first four months of this year stood at 950 million yuan, representing a 15.94 percent increase over the corresponding period of last year. In order to change this situation, it is necessary to attach more importance to financial work, adopt measures to encourage consumption, protect local products, increase circulating funds of enterprises, strictly control expenditure, improve budget, properly and gradually stabilize prices, encourage product marketing, readjust product mix, properly handle relationship between speed and efficiency, increase work efficiency, and take initiative to help enterprises tide over current difficulties.

Leaders of Lanzhou Garment Factory, Dingxi Piston Factory, and some other enterprises in Gansu also spoke at the forum, exchanging their experiences in developing new products, readjusting product mix, carrying out the campaign of "Double Increase, Double Economy," tapping latent potentialities, and increasing economic results.

### **Guangdong Plans High-Tech Research Center**

*HK1106014790 Hong Kong SOUTH CHINA MORNING POST (BUSINESS POST) in English 11 Jun 90 p 4*

[By Geoff Crothall]

[Text] Guangdong will become a major high-technology research, development and production centre by the middle of this decade, say officials.

The mainland province plans to use its connections with Asia's four "little dragons"—Hong Kong, Taiwan, South Korea and Singapore—to introduce new technology to the region and get away from its traditional image as a low-technology processing centre.

In March, Guangdong established the first of three proposed high-technology development zones in the city of Zhongshan.

The first phase of construction in the 667,000 sq metre zone has already been completed and China's largest electronics and computer firm, the Stone Corp, has



agreed to invest 15 million yuan (about HK\$24.75 million) in a new research and production plant there.

Stone now has three subsidiaries operating in Guangdong and plans to gradually move most of its production away from Beijing's Silicon Valley, where the company was founded in the early 1980s, and into Guangdong to take advantage of the international marketing facilities available in Hong Kong.

A Taiwanese company, Hua Hong Computers, has also agreed to invest US\$5 million in an electronics plant in Zhongshan, local officials say.

However, they admit the province has a long way to go before it catches up with Beijing and Shanghai, China's key centres of science and technology research and production.

"We don't have the educational facilities that exist in Shanghai, so we will have to concentrate on technical training and exchange programmes with foreign investors," said Mr Shen Yili, a director at the Guangdong Science and Technology Commission.

The province has 236 research and development institutions with a staff of more than 30,000. But only 12 percent of the staff are actively engaged in work on new and high-technology projects.

#### **Development of Huang He Delta in Planning Stage**

90CE0215A Beijing RENMIN RIBAO OVERSEAS  
EDITION in Chinese 19 Apr 90 p 3

[Article by staff reporter Liu Litian (0491 7787 1131):  
"Treasured Land Awaiting Development—Attractive Prospects for Huang He Delta"]

#### **[Text] Promoting Economic Development of Western Part**

The Huang He Delta is located on the Shandong Peninsula. At its apex is Ninghai in Kenli County, Dongying City. To its north is the mouth of the Tao'er River, and to its south is the Zimai channel. Its area is 5,400 square kilometers. The delta is very rich in oceanic, oil, and gas resources. In particular, the Huang He carries 1.2 billion tons of sand into the sea every year, creating 27 square kilometers of land and increasing the amount of good farmland by 40,000 mu. Today, in China's eastern coastal areas with developed communications, it is not easy to find an area like the Huang He Delta, which awaits development and which has a population density of only 188 persons per square kilometer.

Yang Tingxiu [2799 1694 4423], a worker in the Land Comprehensive Development Planning Office of the State Planning Commission, told this reporter that in the proposed National Land General Planning Program the Huang He Delta has been listed as one of the 19 key areas to be developed. He said, "The 30-year development of the Shengli Oilfield in the Huang He Delta has

spurred industry there, and a large area of farmland has been transformed. Now, basic highway, bridge, electric power, telecommunications, airfield, and port construction is in the initial stage, and conditions are gradually ripening for building the Huang He Delta into an externally oriented, multifunctional economic zone. Setting up an energy base, chemical industries, and large-scale agriculture will not just supply the coastal economy with more processing raw materials and strengthen basic industries; it will also accelerate the formation of the Huang He valley economic belt, and provide structurally rational energy support for development of the eastern and western parts following the building of an east-west railroad and port, which will link the Shengli Oilfield with the large coalfields in Shanxi, Shaanxi, and Inner Mongolia."

In developing the Huang He Delta, the first thing to do is to find really effective methods to prevent the Huang He from overflowing again, and to overcome the complex, restraining factors of land salting and vulnerability to disaster. It cannot be compared to the flourishing, developed Chang Jiang Delta and Zhu Jiang Delta. Yang Tingxiu said that the state's plan particularly stresses that "limited by the total national strength and the basic level of the regional economy, the construction of the Huang He Delta cannot take the path of high-input, high-speed development. It is by planned input and staged implementation that the optimum development and interests will be sought."

#### **Strategic Plan for Three-Step Development**

The overall plan for the Huang He Delta, proposed by experts in various fields, can be divided into three stages of development:

1. Study stage for comprehensive development. The main task in this stage is to strengthen construction of basic facilities, vigorously train and import talent, and improve the investment environment; and to set up a framework for comprehensive development of the petroleum industry, petrochemical industry, large-scale agriculture, and tertiary industries. This will make the development of the Huang He Delta one in which the industrial structure is rational and the economic reserve strength is ample.
2. The stage of building three large bases. This is the stage in which the Huang He Delta's energy, chemical industry, and agriculture-animal husbandry-fishery bases will be built.
3. The stage in which there is a comprehensive formation of industries, ports, and cities.

For the Huang He Delta's economic technology and social development strategy, experts have proposed extremely painstaking measures. While continuing to accelerate the pace of petroleum prospecting and exploitation, develop petroleum processing to get funds for developing other industries, and develop production of the salt industry and desalinization works which have



small investments, quick results, and large profits. Develop the agricultural and sideline product processing industry, and the machinery, textile, and foodstuffs industries in order to provide a complete set of services to men and women workers in the oilfield. In farmland construction, harness alkaline land and establish an ecological-type agriculture, a water-saving-type agriculture, and modern large-scale agriculture; also develop grasslands for animal husbandry, engage in oceanic fishing for aquatic animals and plants, and use beach mud resources to engage in salt water aquatic breeding. Experts hope that a rational industrial structure will gradually be established, as well as a new-type industrial system geared to domestic and foreign markets, using geoscience, biology, economics, and technological and scientific research to explore scientific land management.

#### Think Carefully Before the Battle Begins

"It is now necessary to draw on the experiences and lessons of developing the Chang Jiang and Zhu Jiang deltas when developing the Huang He Delta," Li Fuxian [7812 4395 6343], deputy director of the Land Office, thinks. "Before development there must be meticulous, complete scientific demonstrations, and the overall plan must integrate the long and short terms and weigh the pros and cons."

Localities that have already begun to be built up must be perfected and coordinated as quickly as possible, and must strive to develop in a more orderly way. In developing the Huang He Delta, the economy can continue to develop stably and in coordination with population, resources, and environment only by using overall planning, forming comprehensive regional production bodies, and integrating specialization and comprehensive development.

#### Jiangxi Makes Public Major Economic Indexes

HK2006122190 Nanchang Jiangxi Provincial Service  
in Mandarin 1000 GMT 18 Jun 90

[Text] The Provincial Statistics Bureau, the Provincial Planning Committee, the Provincial Economic Committee, the Provincial Financial Department and the Provincial People's Bank jointly made public the fulfillment of six major economic indexes in prefectures and cities of our province in May of 1990.

1. A slight increase in investment in fixed assets of enterprises owned by the whole people. From January to May, the total investment in fixed assets of enterprises owned by the whole people came to 796 million yuan, an increase of 1.7 percent over the same period of last year.

2. An increase in bank loans, compared with the beginning of the year. By the end of May, bank loans stood at 27.65 billion yuan, 260 million yuan more than the beginning of the year. Bank loans for fixed assets reached 4.29 billion yuan, 60 million yuan more than the beginning of the year.

3. Steady increase in the total payroll of enterprises owned by the whole people. From January to May, the total payroll of enterprises owned by the whole people amounted to 1.97 billion yuan, an increase of 12.4 percent over the corresponding period of last year. After allowing for price indexes for living expenses of workers and staff members, the increase was 6.8 percent.

4. A drop in industrial labor productivity. From January to May, all-personnel labor productivity in industrial enterprises doing independent business accounting owned by the whole people stood at 5,199 yuan, a drop of 4 percent over the same period of last year.

5. A drop in the rate of profits and taxes for sales of industrial products. From January to May, the rate of profits and taxes for sales of products of industrial enterprises within the state budget was 8.96 percent, a drop of 4.6 percent over the same period of last year.

6. A rise in the costs of comparable industrial products. From January to April, the costs of comparable products of industrial enterprises within the state budget went up by 3.9 percent, a drop of 17 percent in the growth rate over the corresponding period of last year.

#### Cooperation Between Jiangsu, Guangxi Grows

OW1906153490 Beijing XINHUA in English  
1401 GMT 19 Jun 90

[Text] Beijing, June 19 (XINHUA)—Cooperation between east China's Jiangsu Province and south China's Guangxi Zhuang Autonomous Region is booming, the PEOPLE'S DAILY reported today.

Relatively advanced Jiangsu began to offer material and technological support to economically backward Guangxi in 1979.

Jiangsu has undertaken 1,200 projects with the region and helped train 5,563 technicians since 1980.

According to a regional official, these projects helped Guangxi generate additional output value of 145 million yuan (about 30.85 million U.S. dollars) between 1986 and 1989.

By cooperating with Jiangsu, the official said Guangxi has gained access to new technology and products helping boost its economy.

The official said the region's agricultural output value last year ranked 12th in the country, up from 15th in 1985; sugar output ranked second; and its output of motor vehicles, television sets, electric fans, watches and machinery registered big increases.

With the help of technicians from Jiangsu, many enterprises have overcome difficulties by upgrading technology and management.

The Nanning No. three radio plant now has an annual output value of more than 100 million yuan (about 21

million U.S. dollars) after joining Jiangsu's "Panda" brand electronics group and importing its advanced technology.

**North's Economic, Technical Cooperation Fruitful**  
*OW1806042290 Beijing XINHUA Domestic Service  
in Chinese 0941 GMT 12 Jun 90*

[Text] Beijing, 12 Jun (XINHUA)—The seventh joint meeting of provincial governors, municipal mayors, and regional chairmen in north China was held in Beijing today. From this meeting, it has been learned that lateral economic association and technological cooperation have added new vitality to the economy of north China.

Incomplete statistics show that over the past year, the two provinces, two municipalities, and one autonomous region in north China have developed more than 5,000 joint and cooperative projects and made investments in each other's localities totalling 600 million yuan. Some 4,000 people have been exchanged among them, and the materials involved in the cooperative projects are valued at some 2.5 billion yuan.

In north China, Beijing and Tianjin municipalities are economically developed and have a strong scientific and technological work force, while Hebei, Shanxi, and Inner Mongolia are major energy producers of our country. They can complement each other to a great extent. Because of this, they have become the first ones in the country to develop lateral economic associations and technological cooperation on the principle of mutual benefit. The practice of using strong points to complement each other has expedited the economic development of north China. Last year, they took the state's industrial policy as the guideline and conducted cooperation with the emphasis on developing transportation, energy, raw materials, and supplies, and on alleviating the problems of fund shortages and market sluggishness. The result was fruitful.

—To alleviate the shortages of raw and other materials, they cooperated in developing resources to effectively increase supply. Beijing and Tianjin municipalities made positive efforts to set up supply centers for raw and other materials in north China. For example, Beijing Municipality made investments totalling some 45 million yuan in Hebei, Shanxi, and Inner Mongolia. The money was used in cooperating with these localities in building a number of production centers for pig iron, industrial chemicals, animal feed, and nonstaple foods. This enabled Beijing Municipality to receive the raw and other materials that had been in short supply on its market and turned the abundant local resources into an economic advantage. Inner Mongolia's Fengzhen County, Qahar Right Wing Front Banner, and Jining City built four ferrosilicon plants by exploiting the abundant local energy resources and quartz deposits and utilizing the capital funds, totalling 10 million yuan, obtained from Beijing, Taiyuan, and Datong. Products of these plants

were sold to the localities from which the original investments were obtained. These projects also accelerated the exploitation of local resources.

- They promoted multiple forms of technological cooperation and exchange and developed their economies by taking full advantage of their inherent advantages. In a variety of ways, Beijing and Tianjin municipalities exported to other localities their scientific and technological research results, advanced management methods, competitive products, and technical personnel. Localities that are less developed economically and enterprises incapable of sustained development made all-out efforts to establish links with big cities, higher educational institutions, and scientific research units so as to acquire technology and develop technological cooperation in various fields. Hebei Province conducted full technological cooperation with dozens of higher educational institutions and scientific research academies and organizations in Beijing and Tianjin in an effort to implement a development strategy of "using science and technology to make Hebei prosperous." This expedited the technical advance of its enterprises and the development of new products. Enterprises making light industrial products, building materials, and foods in Xilin Hot City of Inner Mongolia acquired technology and technical personnel from Beijing, Zhangjiakou, and other localities. They thus developed over a dozen new products, including bone articles, pearlite, and milk powder. These new products increased the profits and tax payments they contributed to the state by some two million yuan per year.
- Various kinds of cooperation continued to develop within small areas. Langfang, Baoding, Zhangjiakou, Tangshan, Chengde, and Qinhuangdao formed a round-Beijing economic cooperation zone with Beijing as the center. They went all out to supply Beijing with farm and sideline products, thus providing abundant nonstaple foods to that municipality. In the "Shanxi-Hebei-Inner Mongolia economic cooperation zone," formed by 15 prefectures, cities, and leagues in Hebei, Shanxi and Inner Mongolia, a number of activities were conducted last year. These included a commodity trade fair, an experience exchange meeting on the development of village and town enterprises, and a seminar on the processing of animal products, all of which contributed to the flow of goods and the exchange of technology. Shanxi's Yangquan and Gujiao established friendly city relationships with Hebei's Shijiazhuang and Tangshan respectively, while Beijing's Xicheng District and Inner Mongolia's Xilin Gol League became friendly district and league. All these assisted in the development of economic cooperation and association.
- Efforts were made to promote cooperation in facilitating the flow of materials. The two provinces, two municipalities, and one autonomous region in north China developed large-scale exchange of materials among themselves by using the methods of cash on delivery, barter trade, receiving supply first and making payment later, and interest-bearing credit sales. This adjusted the surplus

and shortage of materials, solved the problem of overstocking of materials and commodities, and assisted in the circulation of funds. Tianjin Municipality and eight prefectures and cities in Hebei Province conducted cooperation in the supply of materials by enabling suppliers and consumers to make direct contacts. The transactions resulting from this cooperation totalled 270 million yuan in only three months. The Beijing Municipal Communications and Electrical Equipment Company and Hebei's Baxian County established a sales association which opened more sales channels for Beijing and provided a stable commodity supply source for Baxian. Last year saw a total sales volume of 30 million yuan.

### **Shaanxi 1989 Economic, Social Statistics**

90CE0204A Xian SHAANXI RIBAO in Chinese  
19 Apr 90 p 3

[Article: "Shaanxi Province Bureau of Statistics 1989 Statistics Communique On National Economic and Social Development, 17 April 1990"]

[Text] Under leadership of the Shaanxi Provincial CPC Committee and provincial people's government, the people of the whole province won very great achievements during 1989 in resolutely carrying out CPC Central Committee and State Council policies for improving the economic environment and restructuring the economic order, and for deepening reform. Social demand was brought under control; effective supply continued to increase; new accomplishments were made in science and technology, and in all social endeavors; and the entire national economy of the province is facing a fine orientation for development. Preliminary calculations show a gross national product of 34.3 billion yuan for the whole year, up 4.2 percent from 1988; and national revenues of 27.1 billion yuan, up 4.5 percent. The problems of imbalance between gross social supply and demand that accumulated over the years in the operation of the national economy have yet to be fundamentally changed. Deep problems of an irrational economic structure and poor economic returns continue to be fairly prominent; and retrenchment of the macroeconomy has given rise to unavoidable new problems of impeded commodity circulation, insufficient work for some enterprises, an increase in enterprise losses, and an increase in employment pressures.

#### **1. Agriculture**

Farming, animal husbandry, sideline occupations and the fishing industry saw all-around growth. The gross output value of agriculture for 1989 was 14.78 billion yuan, up 5.9 percent from 1988. This included a 9.42 billion yuan output value for farming, up 7.6 percent; an 850 million yuan output value for forestry, down 5.1 percent; a 3.16 billion yuan output value for animal husbandry, up 2.7 percent; a 1.28 billion yuan output value for sideline occupations, up 7.8 percent; and a 70 million yuan output value for the fishing industry, up 18.4 percent.

A bumper harvest was reaped in the farming industry. Grain output broke out of four consecutive years of no

advance, outputs of oil-bearing crops, flue-cured tobacco, silkworm cocoons, and fruit reached an all-time high. Cotton output rallied slightly, but the conflict between output and demand remains glaring.

Outputs of principal agricultural products were as follows:

	1989	Percent Increase Over 1988
Grain	10.493 million tons	6.7
Cotton	56,000 tons	1.8
Oil-bearing Crops	311,000 tons	26.4
Including: Rape	199,000 tons	114.0
Sugarbeets	47,000 tons	-26.6
Flue-cured Tobacco	118,000 tons	9.3
Silkworm Cocoons	84.24 million tons	14.1
Tea	41.25 tons	-5.4
Fruit	543,000 tons	4.6

Afforestation quality improved. The afforested area declined. Harvests of major forest products including walnuts, Chinese chestnuts, raw lacquer, and tung oil seeds declined.

Animal husbandry developed steadily. Both the number of hogs in inventory and gross output of meat reached an all-time high. The numbers of hogs, sheep and goats, and draft animals in inventory increased. Output of poultry, eggs, and milk declined.

Output of major livestock products, and the number of livestock animals in inventory are shown below:

	1989	Percent Increase Over 1988
Pork, Beef, and Mutton	402,000 tons	13.9
Cow's Milk	93,000 tons	-11.4
Wool	3,723 tons	5.7
Number of Porkers Removed From Inventory	4.942 million	8.6
Number of Hogs in Inventory at Year End	8.045 million	6.1
Number of Sheep and Goats in Inventory at Year End	6.162 million	9.8
Number of Draft Animals in Inventory at Year End	3.031 million	2.0

Fishing industry production developed fairly rapidly. Aquatic products output for the year totaled 18,000 tons, up 20 percent from 1988.

Agricultural production conditions continued to improve. The province's farm machinery had a total power of 6.79 billion watts in 1989, 5.8 percent more than at the end of 1988. Large- and medium-sized tractors numbered 19,800, up 1.5 percent; small hand tractors numbered 219,000, up 7.4 percent; farm trucks numbered 14,000, up 7.7 percent; and the effectively irrigated farmland area totaled 1.248

million hectares in a 10,000 hectare increase. During the year 584,000 tons of chemical fertilizer was used, up 18 percent; and 2.54 billion kilowatt hours of electricity was used in the countryside, up 13.9 percent. More farmland water conservancy construction was done; nevertheless, the ability of agriculture to withstand natural disasters remains fairly weak, and the agricultural service system remains insufficiently perfected.

The rural economy developed steadily. Gross rural social output value in 1989 was 27.88 billion yuan, up 15 percent from 1988. This included a 13.1 billion yuan output value from rural industry, the construction industry, the transportation industry, and business, up 22.3 percent and accounting for 47 percent of gross output value versus 45 percent in 1988.

## 2. Industry

Industrial production maintained appropriate growth. During the last half of the year, industrial production fluctuated quite a bit as social demand weakened. For the year as a whole, however, it maintained appropriate growth. Gross industrial output for 1989 was 40.67 billion yuan, up 9.7 percent from 1988. This included 34.39 billion yuan from industry at the village level and below, up 7.3 percent in an increase markedly lower than in 1988. In the gross output value of industry, industries under ownership of the whole people grew 6.2 percent; collectively owned industries grew 11.9 percent (including a 14.6 percent increase for township-run industries), and other industries grew 42.1 percent. Central government-owned industries grew 11.9 percent; and local government-owned industry grew 9 percent.

The industrial product mix improved. Output value of light industry for the year was 16.87 billion yuan, up 7.9 percent from 1988 and accounting for 41.5 percent of the gross output value of all industry. Output value of heavy industry was 23.8 billion yuan, up 10.9 percent, and accounting for 58.5 percent of the gross output value of all industry. Output of daily necessities used in the daily life of the people increased steadily, the above normal growth of high quality durable consumer goods and investment-type electromechanical products being brought under control. Output of raw and processed materials, and of energy increased rapidly. Nevertheless, structural conflicts within industry remained fairly prominent.

Outputs of major industrial wares was as follows:

	1989	Percent Increase Over 1988
Cotton Yarn	171,000 tons	-1.7
Cotton Cloth	730 million meters	-2.7
Wool Fabric	4.495 million meters	-24.7
Knitgoods	13.527 million meters	1.1
Chemical Fiber	13,000 tons	44.1

	1989	Percent Increase Over 1988
Machine-made Paper and Paper Board	364,000 tons	10.4
Crude Salt	104,000 tons	41.0
Cigarettes	1.314 million cases	27.9
White Spirits	59,000 tons	-20.2
Beer	86,000 tons	26.0
Matches	665,000	10.7
Synthetic Detergent	27,000 tons	15.1
Aluminumware	408 tons	-35.7
Bicycles	276,000 units	-6.5
Television Sets	1.071 million units	14.2
Including: Color Television Sets	688,000 units	-2.5
Tape Recorders	31,000 units	0.7
Cameras	133,000 units	16.5
Household Washing Machines	281,000 units	-17.0
Household Refrigerators	250,000 units	56.3
Raw Coal	31.49 million tons	13.9
Crude Petroleum	555,000 tons	28.7
Electric Power	14.85 billion kilowatt hours	7.5
Including: Hydropower	1.3 billion kilowatt hours	25.7
Pig Iron	378,000 tons	-0.1
Steel	465,000 tons	5.5
Steel Products	320,000 tons	11.8
Cement	5.378 million tons	6.8
Plate Glass	1.881 million heavy cases	30.2
Timber	764,000 cubic meters	
Sulfuric Acid	309,000 tons	17.2
Caustic Soda	46,000 tons	4.1
Soda Ash	23,000 tons	95.0
Chemical Fertilizer	413,000 tons	8.5
Chemical Pesticide	63 tons	16.7
Metal Cutting Machine Tools	3,533 units	-19.9
Including: High Precision Machine Tools	180 units	-6.5
Motor Vehicles	5,317 units	55.1
Small Tractors	19,863 units	-21.5
Internal Combustion Engines	634,000 kilowatts	17.9
Color Kinescopes	1,287 million units	12.4

Product sales revenue for independently accounting industrial enterprises in the province for 1989 was 29.49

billion yuan, up 11.3 percent from 1988; and 4.55 billion yuan in profits and taxes was realized, up 10.4 percent. The labor productivity for all personnel was 13,702 yuan, up 5.1 percent from 1988. Because of impediments to commodity circulation, prices of raw and processed materials rose, and some products accumulated in inventory, thereby limiting (or halting) production. The profit and tax rate for industrial sales for the province as a whole was 15.4 percent, down 0.1 percentage point from 1988. Turnover time for quota funds increased from the 142 days of 1988 to 158 days; the profit and tax rate for funds was 13.1 percent, down 0.6 percentage points from 1988; and the amount of funds tied up in finished products of industries under ownership of the whole people was 75.4 percent greater than in 1988, the total cost of comparable products rising 20.8 percent from 1988.

### 3. Fixed Assets Investment and the Construction Industry

The scale of investment in fixed assets was effectively brought under control. In 1989, a total of 9.518 billion yuan was invested in all social fixed assets in the province, up 0.5 percent from 1988. After deducting price factors, the actual volume of work contracted more than 100 percent, including a 6.207 billion yuan investment in local government projects, which was a 3.3 percent contraction from 1988. After deducting for price factors, the actual contraction was more than 14 percent. Of the total investment in the province, investment by units under ownership of the whole people totaled 6.713 billion yuan, basically at par with 1988. Investment by collectively owned units was 608 million yuan in a 25.7 percent contraction from 1988. City and countryside individual investment amounted to 2.197 billion yuan, up 12.9 percent from 1988. In the investment by units under ownership of the whole people, 4.014 billion yuan was invested in capital construction, up 2.1 percent from 1988; and 2.221 billion yuan was invested in renovation and technical transformation measures, 7.8 percent less than in 1988. During 1989, the province made marked progress in controlling the beginning of work on new products and in keeping tabs on construction projects underway, resolutely controlling the building of storied buildings, halls, and public accommodations. There were 1,018 fewer capital construction projects under ownership of the whole people, and renovation and technical transformation construction projects in the province as compared with 1988. The investment mix was readjusted. Of the investment by units under ownership of the whole people, 4.914 billion yuan was for projects of a productive nature. This was 73.2 percent of the total, up from 71.2 percent in 1988. Non-productive investment totaled 1.8 billion yuan, the percentage declining from 28.8 percent in 1988 to 26.8 percent. Investment in the energy industry sector totaled 1.453 billion yuan, the percentage increasing from the 19 percent of 1988 to 21.7 percent. Raw and processed materials industry sector investment totaled 690 million yuan, the percentage increasing from the 9.9 percent of 1988 to 10.3

percent. However, the percentage of investment in the farming, forestry and water conservancy, transportation, posts and telecommunications, and the culture, education, and health sectors decreased from 1988.

Throughout the province, 967 capital construction projects were completed and went into production. This included four large and medium size projects, and five single projects that are parts of large and medium size projects. A total of 903 renovation and technical transformation projects were completed. Newly added major production capacity of units under ownership of the whole people was as follows: extraction of 140,000 tons of petroleum, mining of 457,000 tons of coal, cleaning of 950,000 tons of coal, electrolysis of 8,000 tons of zinc, electrolysis of 5,000 tons of aluminum, processing of 3,000 tons of aluminum, production of 67,800 tons of sulfuric acid, 11,000 tons of soda ash, 59,000 tons of synthetic ammonia, 32,500 tons of chemical fertilizer, 58,400 tons of cement, 1.3 million heavy cases of plate glass, 7,500 tons of chemical fiber, 100,000 electric refrigerators, 15,000 television sets, and 1,264 long distance telephone circuits. The completion and coming on stream of these projects and this capacity adds follow-on power for the province's economic development and improvement of the people's livelihood.

New accomplishments were scored in geological surveys and prospecting. During 1989, 201,000 meters of exploratory drilling was completed, and deposits of coal, gold, copper, lead, zinc, graphite, baroselenite, maifanshi [7796 7391 4258], and limestone for use in making cement were either newly discovered or newly verified at 26 sites. Seventy-three geological reports were filed.

### 4. Transportation, and Posts and Telecommunications Industry

Freight transportation steadily increased. During 1989, conveyances of various kinds in transportation units turned over a total of 33.35 billion ton kilometers of freight, 4.6 percent more than in 1988. This included 32.55 billion ton kilometers by rail, up 4.9 percent; 756 million ton kilometers by highway, down 4.5 percent; 23.74 million ton kilometers by water, down 7.6 percent; and 21.86 million ton kilometers by air, down 23.8 percent. However, the transportation shortage was pronounced.

Passenger transportation declined. Slowing of the speed of economic growth and a rise in passenger fares put a damper on passenger travel, and the volume of passenger transportation declined. All conveyances in the transportation sector completed 18.53 billion passenger kilometers of passenger travel, down 5.6 percent from 1988. This included 12.28 billion passenger kilometers by rail, down 3.9 percent; 5.02 billion passenger kilometers by highway, down 3.5 percent; 9.26 million passenger kilometers by water, up 9.1 percent; and 1.04 billion passenger kilometers by air, down 28.1 percent.

Transportation sector efficiency improved and income increased. Railroad freight hauling locomotives averaged a daily output of 788,000 ton kilometers, up 3.7 percent from 1988. Railroad transportation receipts increased 15.3 percent. Highway transportation enterprises' earnings increased 22.6 percent over 1988; profits and taxes on operations increased 29.3 percent; and the enterprise loss rate declined from 25.3 percent in 1988 to 11.7 percent.

Posts and telecommunications saw sustained development. Posts and telecommunications business volume completed during 1989 totaled 140 million yuan in a 13.3 percent over 1988. New services including express delivery, facsimile mail transmission, and postal savings accounts increased 30 to 250 percent over 1988. As of the end of 1989, 86,000 urban customers had telephones, an increase of nearly 10,000 customers since 1988. Post and telecommunications business income for the year totaled 217 million yuan, up 17 percent from 1988.

#### 5. Domestic Commerce and Supply and Marketing

The domestic market changed a great deal, commodity sales changing from the overly fast growth of 1988 to a partial slump. In 1989 social commodity retail sales totaled 17.67 billion yuan, 11.1 percent more than in 1988. After deducting price factors, they actually declined 6.5 percent. Consumer goods retail sales accounted for 15.37 billion yuan of total social commodity retail sales, up 9.7 percent. This included retail sales to social groups of 1.93 billion yuan of consumer goods, an increase of only 4.3 percent. Retail sales of the agricultural means of production totaled 2.3 billion yuan, up 21.7 percent.

Broken down by economic category, retail sales of units under ownership of the whole people increased 10.5 percent; retail sales of supply and marketing cooperatives increased 8.1 percent; and retail sales of other economic categories increased 13.5 percent. Peasant retail sales to nonagricultural residents increased 11.4 percent.

Of the various kinds of consumer goods, retail sales of commodity food increased 14.3 percent; commodity clothing 11.4 percent, and daily necessities 3.2 percent. After a tremendous increase during 1988, sales of high quality durable consumer goods and of some daily necessities receded in varying degrees.

The gross profit rate on commodity sales in the state-owned and supply and marketing cooperative system throughout the province fell from 14.9 percent in 1988 to 12.9 percent in 1989. The expense rate rose from 12.5 to 13.2 percent, and profits fell 36.7 percent (not including the food system). Enterprise losses increased from 65 million in 1988 to 129 million.

Market prices rose slightly less than during 1988. In 1989, the overall retail price level was 18.8 percent higher than in 1988, which was somewhat lower than the rate of increase in 1988. The 4.6 percentage point new

price rise factor was markedly lower than the 15.3 percentage points of 1988. The rate of monthly price increase receded gradually relative to the same month in 1988 from the 29.7 percent of February to the 3.6 percent of December. Broken down by city versus countryside, the overall level of retail prices during 1989 was 17.2 percent higher in cities and towns, and 21.5 percent higher in rural villages.

The extent of retail price increases by commodity was as follows: a 13.4 percent rise over 1988 in the price of food, a 22.6 percent increase in the price of clothing, a 16.9 percent increase in the price of daily necessities, a 21.8 percent increase in the price of medicine and things used for medical treatment, a 32.5 percent increase in the price of fuel, and a 22.4 percent increase in the price of agricultural means of production. Among foods, grain prices increased 10.3 percent, meat, poultry and eggs increased 11.2 percent, fresh vegetables increased 6.4 percent; and aquatic products increased 28.1 percent.

Staff member and worker living expenses increased 17.6 percent over 1988, lower than the 20.1 percent of 1988.

Demand for the means of production declined. During 1989, sales of the means of production throughout the province's materials system totaled 3.97 billion yuan, up 4.7 percent from 1988. After deducting for price factors, prices of principle goods and materials declined in varying degrees. This included the sale of 638,000 tons of steel products, down 14.8 percent; 4.28 million tons of coal, down 12.1 percent; 735,000 cubic meters of timber, down 11 percent; and 746,000 tons of cement, down 11.4 percent.

The market was more orderly. All jurisdictions in the province took positive action to investigate and proscribe shoddy goods and imitations, to halt profiteering, and to rectify the commodity circulation order, achieving preliminary results. Nevertheless, arbitrary charges for services and in free markets remained a fairly serious problem.

#### 6. Foreign Trade and Tourism

New advances were made in foreign trade. The province's trade system had an import and export volume totaling \$532 million, up 7.9 percent from 1988. This included \$149 million of imports, up 12.4 percent; and \$383 million of exports, up 6.3 percent. The export of minerals accounted for \$326 million of total exports, up 2.7 percent.

External economic and technical cooperation maintained its development momentum. During the year, new agreements were signed with foreign businessmen for the direct investment of \$31 million, up 20.4 percent from 1988. Actual investment was \$97 million, down 13 percent.

Both the number of international tourists received and foreign exchange earnings declined. Visitors to Shaanxi from foreign countries, Hong Kong, Macao, and Taiwan

totaled 212,000 during 1989 in a 42 percent decline from 1988. This included the visit to Shaanxi of 58,000 compatriots from Taiwan, 4.1 percent more than in 1988. Earnings from tourism totaled 142 million yuan (the renminbi equivalent of foreign exchange), 33.2 percent less than in 1988.

### 7. Science and Technology

The science and technology corps saw further strengthening. As of the end of 1989, various types of technical personnel in the province's system of ownership by the whole people totaled 498,000, 225,000 of them natural sciences technical personnel, up 5.9 percent. Independently accounting scientific research and technical development organizations under ownership of the whole people at the county level and above in the province numbered 319 employing 26,000 scientists and engineers.

Scientific research achievements continued to increase. During 1989, a total of 405 major scientific research achievements were scored in the province, 151 of them international firsts, 118 of them firsts for China, and 240 of them meeting domestic advanced standards. Eighty-one scientific and technical achievements won national prizes, eight of them winning national invention awards, 21 of them winning national scientific and technical progress awards, 31 of them winning national science and technology spark awards, two of them winning national natural science awards, and 47 of them of them winning Fourth National Invention Exhibition awards (including four gold medals, eight silver medals, and 35 bronze medals). A total of 117 received provincial scientific and technical progress awards.

During the year 765 patent applications were accepted and 474 patents approved, 35 percent more than in 1988.

Scientific and technical services improved day by day. As of the end of 1989, technical supervision specialists in the province's system of ownership by the whole people numbered 1,336, and 186 provincial standards were formulated or revised during the year. The province has a total of 1,100 transmitter stations in its weather warning system serving 4,500 customers. It has a 49 manned station seismology network, including a 19 station observation network. The mapping system completed 5,709 topographic maps and various scales during the year. It compiled, printed, and published 7,099 copies of 51 different maps.

### 8. Education and Culture

Enrollments in ordinary institutions of higher education were brought under control. During 1989, 1,718 graduate students were enrolled throughout the province, 16.3 percent fewer than in 1988. Graduate students totaled 6,225, down 7.8 percent. Undergraduate enrollment and enrollment of students in specialized fields in ordinary institutions of higher education totaled 25,900,

down 15.7 percent from 1988. College students numbered 98,600, up 0.7 percent.

Secondary vocational and technical education developed steadily. Students in all types of secondary technical schools numbered 169,100, up 7.3 percent from 1988. They accounted for 57.7 percent of the total number of students in senior middle schools in a 6.5 percentage point increase over 1988.

Students in junior middle school throughout the province numbered 1.063 million, 18.5 percent fewer than in 1988. Primary school students numbered 3.511 million, up three percent from 1988. All of the province's 107 counties (cities, and districts) have compulsory primary school education.

There were 65,200 students in adult schools of higher education, 0.3 percent fewer than in 1988. Students in adult secondary technical schools numbered 24,300, down 25.3 percent from 1988. Students in adult technical training schools numbered 193,600, down 37.6 percent. Students in adult secondary and primary schools numbered 529,500, up 17.9 percent.

Cultural programs continued to developed. During 1989, eight feature films, 90 television plays (or episodes of a series), and 305 newsreels were produced. As of the end of 1989, the province had a total of 4,816 film projection units, 120 artistic troupes, 113 cultural palaces, 46 museums, 113 public libraries, 118 archives, five radio broadcasting stations, 12 radio broadcasting transmitter and relay stations, nine television stations, and 17 television transmitters and relay stations having a power of 1 kilowatt or more. A total of 310 million copies of newspapers were published during the year, 20.29 million copies of magazines of all kinds, and 82.23 map booklets (or individual maps).

### 9. Health and Physical Education

Health programs continued to develop, and medical treatment conditions improved. As of the end of 1989, the province had a total of 74,700 hospital beds, 3.4 percent more than at the end of 1988. It had 116,400 medical specialists, 1.3 percent more than in 1988. This included 58,400 medical doctors, up 2.4 percent; and 26,400 medical technicians and nurses, up 9.5 percent. Preventive health care, and medical supervision and monitoring work improved. During 1989, the total reported incidence of communicable diseases declined 23.7 percent.

The level of sports and athletics rose further. During 1989, the province's athletes took a total of 24 gold medals, 28 silver medals, and 27 bronze medals in major domestic and foreign competitions. One person broke one national record once, and 58 people broke 76 provincial records 76 times. At the Second National Youth Athletic Meet, the province's athletes took 24 prizes, including seven gold and silver medals, and 10 bronze medals, ranking fifteenth nationally.

## 10. People's Livelihood

The cash income of city and countryside residents continued to increase. A random sampling showed an annual per capita cash income available for living expenses of 1,147.50 yuan (not including materials in kind that units issue staff members and workers, and other "hidden" earnings), for a 19.3 percent increase over 1988. Peasant annual per capita net income was 433.70 yuan, up 7.3 percent from 1988. The consumption psychology of city and countryside residents calmed down; the structure of consumption tended toward normalcy, and income and expenditures offset each other with a slight surplus. Nevertheless, the real income level of low income families declined as a result of price rises. City and town employment increased. During 1989, the province placed 130,000 personnel of all kinds awaiting employment in cities and towns. At the end of the year, the number of employed staff members and workers in the province totaled 3.735 million, up 58,000 from the end of 1988. As of the end of 1988, 172,000 people in cities and towns were working for themselves, up 21,000 from the end of 1988. Because of the curtailment of social demand, some enterprises did not have enough work to do, and the number of people awaiting employment in cities and towns increased.

The total wage bill for staff members and workers in the province during 1989 was 6.81 billion yuan, up 13.4 percent from 1988. The per capita annual wage of staff members and workers was 1,856 yuan, up 10.5 percent.

Residents' savings increased tremendously. As of the end of 1989, city and countryside residents' savings showed a surplus balance of 15.01 billion yuan, 4.14 billion yuan more than at the end of 1988 for a 38.1 percent increase.

Living conditions continued to improve in both cities and the countryside. During 1989, 3.022 million square meters of new housing was built in cities and towns, and 13.283 million square meters of new housing was built in rural villages.

Social welfare programs developed further. As of the end of 1989, social service institutions throughout the province had 15,100 beds and took care of 11,500 people. National relief was provided 13,900 times to various kinds of people requiring social assistance in cities and towns.

New achievements were made in insurance programs. As of the end of 1989, 11,000 enterprises and 1.868 million households carried property insurance, property insurance of all kinds totaling 56.08 billion yuan for the year, up 33.5 percent from 1988. A total of 7,102,300 people carried personal insurance. During the year a total of 45,000 domestic property insurance claims were paid, payments totaling 46.57 million yuan. A total of 34.47 million yuan was paid in 31,000 personal insurance claims.

## 11. Demographics

A random sampling of population changes showed a 22.25 per thousand birthrate for 1989, a 6.32 per thousand death rate, and a 15.93 per thousand natural rate of increase. Extrapolation produces a year-end population for the province of 31.91 million.

**Note:** 1. All output values contained in this communique were figured at current year prices, and speed of increase was calculated at comparable prices.

2. Calculated in the terms of 1980 constant prices, the province's gross output value for agriculture during 1989 was 8.31 billion yuan; and the gross output value of industry was 31.12 billion yuan. This did not include the 25.78 billion yuan gross output value of industrial enterprises at the village level and below.

3. Amounts of chemical fertilizer applied, and output of chemical fertilizer and chemical pesticides were figured on the basis of 100 percent effective ingredients.

## Sichuan Market Witnesses Recovery in May

HK1406121590 Chengdu Sichuan Provincial Service  
in Mandarin 0915 GMT 13 Jun 90

[Text] After being weak for four months running, Sichuan's market finally began to recover in May.

In May, the total volume of Sichuan's social commodity retail sales stood at 4.246 billion yuan, representing a two percent increase over the previous month and a 4.14 percent over the corresponding period of last year.

The total volume of consumer goods retail sales witnessed a 2.6 percent increase, while the total volume of production means retail sales witnessed a 9.4 percent increase over the previous month.

The urban market witnessed a more rapid recovery compared with the rural market. The total volume of commodity retail sales on the urban market reached 1.58 billion yuan, representing a 8.1 percent increase over the corresponding period of last year. Sichuan's social group consumption reached 326 million yuan, representing an 8.2 percent increase over the previous month.

Nevertheless, the total volume of commodity retail sales at or below county level dropped by 2.1 percent compared.[as received]

Commercial departments at all levels spent 1.2 billion yuan on purchasing farm and sideline products, representing a 51 percent increase over the corresponding period of last year.

The state plans to spend more cash on purchasing farm and sideline products in June and July of this year. Therefore, commercial departments at all levels must organize and send more readily marketable industrial products to the rural areas in the hope of invigorating and prospering the rural market.



### Yunnan Market Slump Analyzed

90CE0224A Kunming YUNNAN RIBAO in Chinese  
23 Apr 90 p2

[Article by Jin Fengyun (6855 7685 0061), Zhang Yaguang (1728 0068 0342), and Kong Xianggeng (1313 4382 1649): "There are Two Sides to the Slump—a Tentative Analysis of the Market Slump in Yunnan Province"]

[Text] Events in the market are one of the indications of the state of the national economy. It is extremely important to appraise market phenomena accurately to guide the development of the national economy.

Last year Yunnan Province adopted a series of measures aimed at improvement and rectification. A "three-stage change" occurred throughout the entire market, and "things declined in three areas."

The first stage was the first quarter, in which things went from "hot" to "warm." The rate of growth for total retail sales of social commodities for the entire province decreased from the 1988 figure of 32.4 percent to 21.4 percent. The second stage was the second quarter, when things went from "warm" to "tepid." The rate of growth for total retail sales of social commodities for the entire province dropped to 14.2 percent. The third stage was the period from July on, in which things went from "tepid" into a "slump." The rate of growth for total retail sales of social commodities for the entire province in December was 3.5 percent.

The first area in which things declined was the temperature of overheated urban and rural demand. The second area of decline: the temperature of the overheated consumers' market. The third area of decline: the scope of repeated fluctuations in the retail market and in price rises began to fall. Market prices became more stable, and people's anxiety over prices was basically calmed.

### Two Sides to the Yunnan Market Slump

The current market slump in Yunnan is conducive to economic development in one way, but in another way it has an adverse impact upon economic development. This is demonstrated in three main ways:

First, when the Yunnan market is said to be in a slump, it is in comparison with the overheated market that occurred in 1988. The rate of growth for total retail sales of social commodities throughout Yunnan was 2.7 percent in 1989, compared with the abnormally high 32.4 percent for 1988. Cost of living expenses for urban and rural residents in Yunnan were 1,140.7 yuan in 1989, and per capita wages were 1,880 yuan. This shows that market consumption and the people's standard of living are becoming more harmonious.

Second, the Yunnan market slump is the result of macroeconomic retrenchment and measures to control excess consumer demand. The effects are most apparent in four areas: 1) Reducing the scale of fixed asset investment has

decreased purchasing power on the market. Last year, a total of 6.45 billion yuan were invested in social fixed assets in Yunnan, 330 million yuan less than 1988. Using the formula that 40 percent of fixed asset investments are converted into purchasing power on the market, this item alone has lowered purchasing power on the market by 130 million yuan. 2) The purchasing power of social groups has been effectively controlled. Last year the purchasing power of social groups in Yunnan totalled 1.02 billion yuan. Adjusting for price inflation, this was a drop of 18.5 percent. In the commerce department system alone, the amount of consumer goods sold to various social groups decreased by nearly 10 million yuan, a 7.1 percent decrease from 1988. 3) The province checked 6,200 corporations, 1,016 were put out of business, and 705 corporations that violated laws were punished. Some commodity circulation link were reduced, and costs were lowered. 4) The province launched value-protected savings accounts and raised interest rates, thereby reversing the consumer mentality of panic buying. Urban and rural savings posted a net gain of 2.23 billion yuan last year, an increase of 35.4 percent over 1988, thereby curbing the appetite of some work units to buy up stock blindly and forcing units to readjust prices of low-quality products with large inventories.

Third, the market slump has provided Yunnan an opportunity to readjust its industrial structure and raise the quality of enterprises. In a slumping market, producers must rely on quality to survive, which has forced some areas and work units to readjust structurally and raise product quality.

The current market slump has indeed had a negative impact on economic development in Yunnan. Mainly a shortage of funds, an undersupply of some capital goods, excess inventories of some agricultural and sideline products, and sluggish sales of some industrial products have affected industrial and agricultural production and have caused difficulties for enterprises and peasants.

### We Must Treat Different Aspects of the Slumping Market in Different Ways

We must attain an accurate understanding of the state of our market. From the standpoint of policy and ideology, we must understand specific problems involved in the market slump. We must correctly handle three relationships:

With respect to financial policy, we must correctly handle the relationship between the reduced money supply and support of key enterprises, avoid treating everything the same, and ensure positive results from the reduced money supply. In a planned commodity economy, interest rates are an important lever of macroeconomic control. Changes in the interest rate can regulate the relationship of supply and demand for funds. Reducing interest rates can enable the economy to expand. Raising interest rates can make the economy contract. Therefore, in the area of financial policy, we must support the program of reducing the money supply, and support key enterprises and "old, border, minority, and poor" areas. We must implement a policy of different interest rates.

Second, in the circulation sector, we must take care to rectify the market and to perfect market relationships. Due to historical and natural reasons, Yunnan's commodity economy and its market are still not developed nor perfected. The task of perfecting the market, and promoting economic development, will be quite difficult. Therefore, the key to our rectification of the market is to clear out corporations and trading units that exploit their middleman's position, as well as corporations that have been set up needlessly and have carried out disguised price hikes. We must resolutely cut out the intermediate link, in which people make big profits by exploiting others, buy and sell speculatively, and jack up prices. At the same time, the province should aggressively set up agricultural markets in which producers and sellers come face to face. The province should also work hard to set up corporations with joint operations and various types of trading centers. The province should protect and support trading entities which are beneficial to producers and consumers, and should establish a market system which links cities with the countryside, and which facilitates communication between producers and consumers.

The third relationship involves how the province deals with slow-selling commodities. It must correctly handle relationships between inferior commodities, on the one hand, and necessary products and high quality consumer goods, on the one hand, and agricultural and sideline products, energy resources, capital goods, and other commodities. It should be considered normal when sales of poorly made, low quality products are sluggish, but not so when this occurs with necessary and high-quality products. The latter problem should be resolved. Agricultural and sideline products, especially such basic necessities as grains and meats, have an impact upon social stability. Even if a problem that is limited in scope crops up, the province should use funds and policies to preserve stability. As for energy resources, capital goods, and other commodities, the province should concentrate on protecting the former.

In short, we must adapt a positive attitude as we face a market slump, fully recognize that there are two sides to the issue and take advantage of the current drop in the growth rate to vigorously readjust industry and the product mix, and protect key industries and products. We must continue to revitalize circulation, improve product sales, expand domestic and foreign markets, and solve the problem of unmarketable inventories of agricultural and sideline products as quickly as possible.

#### **Problem of Imported Equipment Absorption in Yunnan**

90CE0212A Kunming YUNNAN RIBAO in Chinese  
15 Apr 90 p 2

[Article in "Working Research" column by Zhang Kaihan (1728 7030 3352): "Digesting Imported Technologies, Raising the Equipment Utilization Coefficient"]

[Text] Under the guidance of the line of the Third Plenary Session of the 11th CPC Central Committee, Yunnan has established a guiding ideology that depends

on technological progress, effects technological transformation, improves product quality, lowers materials consumption, and increases economic results. Thus, Yunnan's tobacco industry has imported a fairly large amount of equipment. Over the past 10 years the province has invested 750 million yuan in Renminbi and used \$140 million in foreign exchange to import one tobacco leaf composite flue-curing production line with an annual production capacity of 600,000 dan, seven cut tobacco-making production lines with an annual production capacity of 2.4 million boxes, 187 cigarette rolling units (sets) with an annual production capacity of 1.96 million boxes, and 123 packaging units (sets) with an annual production capacity of 800,000 boxes.

Following the importation of equipment and their being put into production, to effect a rise in output of the cigarette industry by laying a good material and technical foundation for specializing in quality, readjusting the structure, and increasing profits, so that the province's cigarette industry shows its talent daily, and the cigarettes' quality and packaging make people treat them with increased respect, the speed of the readjustment of the product structure has been astonishing, and its economic results have risen to first place in China's tobacco industry and the industry has become an important pillar in Yunnan's economy and financial income. In 1988 Yunnan's cigarette output reached 3.549 million boxes, 3.4 times that of 1981, and imported equipment undertook more than half of the production; the output value was 3.1 billion yuan, 3.7 times that of 1981; taxable profits were 4.29 billion yuan, 7.6 times that of 1981, among which the taxable profits on cigarettes were 3.443 billion yuan, and 85 percent of it was realized by dependence on imported equipment; and the output of filter-tip cigarettes was 1.42 million boxes, 20.8 times that of 1981, of which 95 percent was produced by imported equipment.

However, we must soberly see that, with regard to the present level of actual use and management of imported equipment, we cannot fully conform to the wishes of the people, that there still exist many prominent and even mortal problems, and that, speaking as a whole, the level is fairly low, a situation that is reflected in concentrated fashion in the imported equipment's low effective utilization rate and low actual machine-time production efficiency. This problem is often easily concealed by the big growth in the total output and total profits of cigarettes, and there is not a full consciousness that our present high output and high profits are obtained under circumstances in which the equipment's production rate is very low, and there is a dependence on putting in a large amount of new equipment and lengthening the work time. What is more serious is that the attention of many people is put on continuing the importation of a large amount of equipment, and the focus of attention is not put on improving the digestion and absorption of imported equipment and on the effective utilization rate of the equipment. Relevant data shows: the effective utilization rate of imported equipment on average for

China as a whole is about 50 percent, and the equipment's general production rate is even lower. The level of Yunnan's use of equipment, generally speaking, is higher than the average level for the country as a whole.

The cut tobacco-making production line of the Yuxi Cigarette Factory, which was imported from the Hauni Company of Federal Germany, has an effective utilization rate of 91.3 percent and an average production efficiency of 87.68 percent. The average effective utilization rate of the imported cigarette-making, packaging, and filter tip-modeling equipment is more than 90 percent and its average production efficiency is 64.27 percent, which is in line with the advanced level for the same industry in China as a whole. However, Yunnan's utilization of imported equipment is very far from ideal. For example, in the cigarette wrapping equipment, because there are many types of machines, the technology is fairly complex, the machines operate in a dispersed fashion, and management is not good, the utilization is fairly poor. The average production efficiency of the main tobacco machines and equipment in Yunnan is 75 percent, of which that of the equipment made in China is 89.41 percent and that of imported equipment is 51.04 percent. The efficiency of imported equipment is thus much lower than that of equipment made in China. Compared with the efficiency levels of developed countries, at present the machine-time production efficiency of Yunnan's imported equipment has not yet reached the 40 percent level.

If it is said that the low production efficiency reflects the main problems in using imported equipment, then in the state of technology it reflects a latent crisis for the equipment itself. Following the increase in utilization time, there was a drop in the technical performance of part of the imported equipment. In particular, because the technical level of operation is low, the daily maintenance and care of the equipment is not good, the quality of raw and supplementary materials does not meet requirements, and the work environment for the equipment is bad, the wear and tear on and the aging of the equipment are accelerated. The supply of spare parts is not timely enough, the equipment's maintenance technical standards and data are not complete, there is a lack of high-quality technicians who have been systematically trained and can correctly adjust and maintain the imported equipment, there is pressure from heavy production tasks, and so forth. The equipment can not yet be appropriately and timely safeguarded and repaired, and part of the equipment for a long time has been operated despite being in poor condition, causing a drop in the technical state of some of the imported equipment. All of this adversely affects the current production efficiency of the imported equipment, and creates an extremely threatening potential crisis for the equipment in the future.

We raise these problems not to blame anyone; the idea is to change Yunnan's cigarette-making enterprises' "craze" for importing equipment to their "craze" for digesting and absorbing imported equipment, that is,

changing the focal point from only pursuing large-scale importation of equipment to the focal point of enhancing the digestion and absorption of imported equipment, and of enhancing overall enterprise management and equipment maintenance. Each enterprise must make the digestion and absorption of imported equipment, and the improvement of the effective utilization rate of imported equipment, one of the key points in its work. To achieve this goal it needs to take the following measures: First, leaders at all levels must pay full attention to the digestion and absorption of imported equipment and to the improvement of the effective utilization rate of imported equipment. If Yunnan's tobacco industry is able, within one or two years, to improve the general effective utilization rate of the imported cigarette-making and packaging equipment by 10 percent, then our annual production capacity of smoking tobacco could increase to 356,000 boxes, equivalent to the annual capacity of the 21 newly imported MK9-5 cigarette-making units (sets). It could both reduce the outlay in foreign exchange by \$12.6 million and add 64.33 million in taxable profits for the state. It could also further satisfy consumer needs and mitigate the contradiction on the market between smoking tobacco supply and demand. Second, enhance technical training, improve the quality of operational and maintenance personnel, and handle well technological digestion and absorption. Third, strengthen the building of the cigarette accessory industry, and as fast as possible set up Chinese-foreign joint venture heavy repair plants and parts supply centers for imported equipment in order to solve the problem of making heavy repairs on, and supplying parts for, imported equipment. At the same time all enterprises must, in many directions and through many channels, seek ways for the solution of problems, and, in line with their different demands and degrees of processing difficulty, separately adopt measures within the factory to make things themselves, commission processing, and place orders (contracts) with specialized factories. They should, by applying for import permits and other ways, strive for solutions. In addition, with regard to the production, processing, and printing of the relevant materials and supplementary materials used by the imported equipment, they must guarantee the quality and reduce the adverse effect of supplementary materials on equipment efficiency. Fourth, create the necessary external environment for the use of imported equipment, support and maintain the imported equipment well, and strive to reduce the number of equipment breakdowns. Fifth, practice the method of fixed-place management and enhance the on-the-spot management of equipment. Thoroughly analyze and study the production scene, industrial order, movements and methods; properly arrange all things on the industrial scene; and adjust and improve the places, improving the relations between man and material, man and scene, and material and place. Sixth, establish and perfect various equipment management responsibility systems, list equipment responsibility objectives in the factory director term-of-office objective responsibility system, link up the main technical indices of equipment

management with enterprise upgrading, conscientiously initiate equipment inspection and appraisal and do award and penalty work, and arouse the enterprises' enthusiasm for using equipment well. We must form a comprehensive management system for equipment in which leaders at all levels are concerned and take seriously, in which relevant departments coordinate and cooperate, and in which all personnel and all processes in the enterprise take part.

## FINANCE, BANKING

### Separation of Tax, Profit Remittance Advocated

90CE0038A Beijing JINGJI YU GUANLI YANJIU  
[RESEARCH ON ECONOMICS AND  
MANAGEMENT] in Chinese No 1, 8 Feb 90 pp 22-24

[Article by He Jichuan (0149 3444 1557): "An Effective Way To Achieve Stable Growth in State Revenues; Separation of Tax and Profit Remittance"]

[Text] China's state industrial enterprises have undertaken contract management responsibility, which certainly has given incentive to the firms' managers and employees, enhanced their sense of responsibility and of being masters of their own affairs, and promoted growth in production. Nevertheless, the current system of contract management responsibility definitely is plagued by many shortcomings, the most salient of which is that it has severely reduced state revenues. This occurs because most contract base figures are based on the average amount of taxes and profits paid by enterprises over the previous three years, plus stepped increases, whereas China is in the midst of a major wave of reform, and the external environment changes rapidly, which subjects enterprises to great shock. The unscientific way in which contract base figures are set makes them irrational and creates new problems in the distribution relationship between enterprises and the state. First, the earnings of some large, key firms that once had been very profitable and bear heavy remittance quotas plummeted as a result of the effects of prices and wage readjustments and other factors, severely undermining the firms' ability to make their remittances. Second, some firms that had been inefficient, suffered major losses, and had no remittance quotas or little ability to make remittances received great increases in profits as a result of changes in market conditions, price rises, and other factors, yet the state has not benefited. Third, some enterprises suffered losses owing to poor management or their inability to cope with the tremendous external pressure to which they have been subjected, making them unable to fulfill their contracts, thus reducing state revenues. The replacement of taxes by rigidly set remittance base figures has caused tax department monitoring of enterprise operations to slacken, which also has led to great erosion of state revenues. Furthermore, responsibility contracting has not touched the practice of treating loan repayment as a

pretax charge, and reckless granting of credit occasionally occurs; these, too, reduce state revenues, indirectly. We urgently need to find an effective way to resolve all of these problems.

The separation of taxes and profits, which is being carried out experimentally in a few cities, may help to ensure stable growth in state revenues. Tax-profit separation means separating the income the state obtains as taxation on enterprises, which the state receives as the manager of society, and the income the state receives from enterprises as profits on the assets it owns. Tax-profit separation transcends the old approach followed over the past several years of changing profit remittance to tax collection or vice versa, clearly differentiates the incomes the state receives as the government and as an owner of assets, which incomes are very different in nature, and provides a new, stable way to increase state revenues.

Yiyang City in Hunan, for example, has, since 1988, implemented pilot tests of tax-profit separation for 25 of the 37 state industrial enterprises in the city; consequently, this has both promoted increases in output in those firms and ensured stable growth in state revenues. The 25 firms earned a total of 26.276 million yuan in 1988, a rise of 25.1 percent over the previous year, and 12.453 million yuan during the first six months of last year, an increase of 7.24 percent over the same period in 1988; paid 5.553 million yuan in taxes in 1988, an increase of 28.8 percent over the previous year, and 3.493 million yuan during the first half of last year, a rise of 42.6 percent over the period a year ago; posted after-tax profits of 13.601 million yuan in 1988, from which they made 6.654 million yuan in loan repayments, for an actual retained profit of 6.949 million yuan, a rise of 52.7 percent over the previous year, and after-tax profits of 8.682 million yuan during the first half of last year, a rise of 49.33 percent over the year-ago period. With increased output, not only did enterprises earn and keep more profit, the state received more revenue, too.

How does tax-profit separation stably increase state revenues?

1. *Collecting income tax in accordance with how much profit enterprises earn provides the most important guarantee that state revenues will undergo a stable increase.* Since the the Third Plenum of the 11th CPC Central Committee, state enterprises have carried out such reforms as the two-step change from profit to tax remittance and management responsibility contracting. These reforms have played a positive role in motivating enterprises, promoting growth in production, invigorating the economy, and the like. Nevertheless, both the shift from profit to tax remittance and remittance of contract quotas, even when made in full, lump together and confuse the concepts of "taxes" and "profits." People think of state enterprises as state-run and of both the profits and taxes the firms remit as profits, a view that in reality treats the state as merely the owner of state enterprises, whereas profit, which is earnings on assets,

is, after all, completely different from tax, which is a revenue collected by the government. Profit is shared among owners, managers, and producers, whereas tax is the state's alone. Depending on how assets are managed, enterprise profits may be high, low, or nil, and there may even be losses. Of course, the profits the state receives as owner from enterprises also should vary as enterprise operations fluctuate. But taxes are different. No matter how enterprise operations go, taxes must be remitted in full. Regardless of the situation, enterprises must keep the needs of the state in mind. For the state, as manager of society and macroeconomic regulator, bears the responsibility for managing the entire society and for regulating the economy. Consolidation of political power, social development, improvement in living standards, strengthening of national defense, and the like to be guaranteed, require that the state continually augment its financial resources. If we make profit levels the basis of taxation, we can ensure that state revenues from enterprises will stably increase, for in most cases enterprises will earn more and more profits as output expands. Naturally, if profits are the basis of taxation, income taxes, levied at a uniform rate on enterprises, are bound to increase. Generally speaking, taxes form a much more important source of revenues than do profit remittances under the profit-tax separation program. Stable growth in tax revenues thus provides the most important guarantee that the revenues the state receives from enterprises will increase.

*2. Changing loan repayment from a pretax to an after-tax charge indirectly facilitates growth in state revenues.* During the move, in the reform of the earnings distribution relationship between the state and enterprises, from the granting of retained profits to enterprises to the two-step transition from profit to tax remittance, enterprises gradually began to be permitted to write off the loans they used to invest in fixed assets as a pretax charge, using the system of redeemed net income accruing from loans, known in short as pretax loan repayment. This approach is popular among enterprises, for the accrued profits used to repay loans for investment in fixed assets in fact amounts to a state grant of an income tax abatement to enterprises, which is to say that the state uses this collectable but uncollected income tax to help firms adding fixed assets repay some of their loans. While this practice certainly does give enterprises incentive to undertake technological transformation, it also eliminates some of the guarantee of stable growth in income tax revenues. Especially important, the various problems that plague the practice have caused unacceptable erosion of income tax revenue. In making investment decisions, some enterprises fail to carry out careful feasibility studies or market surveys or even cost accounting. Once completed, some of these projects fail to go into production on schedule either because they lack the necessary equipment or raw materials or because their technology is substandard; the products of some of these projects cannot be marketed because their quality does not meet requirements; and other projects end up with unsalable goods due to changes in market

conditions; and so on. When enterprises write off as pretax loan repayment such additions of fixed assets, which do not increase profit or even reduce profits, the firms in actually write off some of their old profits, on which income tax ought to be paid, instead. Still worse, some enterprises have employed the underhanded gimmick of simultaneous borrowing and repayment, completing the procedures for taking out and repaying bank loans at the same time, thereby diverting some of their existing profits for unauthorized investment in fixed assets. Pretax writeoff of loan repayment has increased enterprise appetite for investment, fueled rash investment, and caused returns on investment to deteriorate. With respect to the state budget, not only does this practice reduce state revenues during the year of the writeoff, there is not even an assurance that the fixed assets added through such investment will produce a source of steadily growing tax revenues. If we make loan repayment an after-tax charge, the state would no longer use income tax to help enterprises repay their debt, transform investment from a responsibility shared by the state and by enterprises to one borne solely by enterprises, and gradually shift the role of investment to a single entity. This approach would force enterprises to consider optimal returns on investment, naturally curb the rash impulse to invest, certainly check appetite for investment, and effectively cure the common maladies of ballooning investment and declining returns thereon. As for the state budget, this approach will not only facilitate stable growth in income tax revenues but also help create a long-term and stable source of tax revenues, as the principle of achieving optimal returns on investment in fixed assets is realized.

*3. Reducing enterprise tax burdens will help nurture tax sources for the state.* The tax-profit separation program has adopted two important measures to reduce enterprise tax burdens. The first is reduction in income tax rates. Yiyang changed the 55 percent rate for large and medium firms and the 8-bracket progressive system for small firms to a uniform five-bracket progressive tax for all firms, large, medium, or small. The lowest bracket, for annual profits of 10,000 yuan or less, is 10 percent; the highest, for earnings of 200,000 yuan or more, is 35 percent. The highest rate under this system is 20 percentage points lower than that of the previous system. Measured against the profits the 25 enterprises participating in Yiyang's pilot program earned in 1988, the firms paid an average tax of 21.5 percent that year, a 32.47 percent reduction from the rate paid under responsibility contracts. The second measure employed in the program is abolition of the regulatory business tax. This tax, which was levied at the same rate on all enterprises, was completely abolished as taxes and profits were separated, a move that greatly increased the amount of profits enterprises retain. The 25 participants in Yiyang's pilot reform retained as much as 13.601 million yuan in 1988, a rise of 171.2 percent over the previous year and a net increase of 52.7 percent when loan repayment, charged after-tax, is deducted. With more retained profits, enterprises and employees have much

greater incentive, and enterprises enjoy greater ability to expand reproduction. All of these things facilitate improvement in enterprise productivity and economic efficiency and, of course, help nurture tax sources for the state.

4. *Invigorate tax departments, strengthen management of tax collection, and nurture tax sources.* An important principle of tax-profit separation is to make enterprise earnings the target of taxation, which compels tax departments to strengthen their economic monitoring of the targets of taxation. Under management responsibility contracting, which lumps taxes and profits together, contract restraints weaken tax department economic monitoring, sometimes even making such oversight optional, giving enterprises operating unlawfully opportunities to exploit and eroding state tax revenues. Tax-profit separation greatly enhances the role of tax departments as economic levers. These departments on the one hand have to effect regular, systematized monitoring of enterprise economic activity and prevent overstatement of costs, under-reporting of income, and other fraudulent behavior; on the other hand, they help in a variety of ways enterprises to improve their management and efficiency. In the one-plus year in which Yiyang has experimented with tax-profit separation, the city's tax departments have collected through audits of enterprises participating in the reform 240,000 yuan in underpaid income tax, provided enterprises with 176 suggestions on how to rationalize and improve their management, promoted improvement in enterprise efficiency, and nurtured sources of tax revenues for the state.

5. *After-tax contracting ensures stable growth in the revenues the state obtains from earnings on its assets.* As stated above, besides taxes, state revenue from state-owned firms practicing tax-profit separation also includes profits. Generally speaking, the contract base figure for after-tax contracting is the amount that is left after loan repayment is deducted from after-tax profits and the amount that remains after the enterprise retains a reasonable share of profits. Enterprises sign contracts with the state on the basis of this figure and of their varying circumstances. The forms employed include stepped increases in profit remittance quotas, base figures, sharing of extra-quota profits, fixed quotas, and proportional quotas. At the current stage, in which the experiment with tax-profit separation has just commenced, Yiyang has taken into account the facts that the foundations of the participating enterprises are weak and that the firms face heavy tasks in effecting technological transformation and does not require that the firms contract to remit any of the profits remaining after the firms pay the income taxes provided for in the tax-profit separation program but rather that the firms transfer specified shares of their profits into various funds. However, the city does require that a handful of firms showing especially good earnings remit, depending on their respective circumstances, specified shares up to 20 percent of the remainder of their after-tax earnings once approved profit-retention and loan-repayment base figures are deducted. Naturally, these measures are expedients employed in the process of experimentation. Once tax-profit

separation gets on track, each enterprise should pay the full amount of profits and taxes provided for in the enterprise's after-tax profit remittance contract, which represents the amount of the state's earnings from its assets, so as to ensure steady growth in state revenues.

## INDUSTRY

### Structural Similarity Promotes Poor Development

90CE0177A Beijing JINGJI CANKAO in Chinese

3 Apr 90 p 4

[Article by Chen Xiang (7115 5046): "Analysis of the Principal Reasons Why Local Industries Tend To Be Similar in Structure"]

[Text] The trend to similarity in local industrial structures is a reflection of the domestic economic imbalance among localities, and is a sticking point in adjustment of the industrial structure. This trend to similarity is manifested chiefly in the various localities not giving a thought to their own conditions, generally competing for development and high added value processing industries, which makes each locality start out from different economic and technical starting points, and ultimately going the route of structural similarity. After the State Council announced its industrial policy, as each locality was deciding on its leading industry, there was still a developmental trend to similarity, concentrated generally in the four major industries of textiles, food products, machinery, and chemicals. The formation of this trend to similarity is the result of various factors coming together, specifically, the following several reasons:

Along with the growing trend to localize economic development, each locality initially formed a distinct, comprehensive, economic developmental force; this was a necessary condition for forming structural similarity. Along with the deepening reform of the economic system, the economic management authority of departments grew weaker and that of localities grew stronger. This led to a situation where profits and investments were for the most part pluralized. Each local government established a level of benefits for its specific locality, so that the traditional division of the work arrangement in these localities began breaking up, and a significant number of localities had the definite authority and capability to arrange for comprehensive development and implementing investment on their own. However, in a situation where macroeconomic benefit adjustment measures are still imperfect, since the attainment of local profits stimulated the local governments' specific awareness, it also stimulated competition for profits among the localities. Each locality, under the impetus of its own profit mechanism, competed with one another in the quest for general processing industries which have a high added value, making for a similar trend in local development towards high value-added industries in the evolution of their industrial structure.

For the most part, the local fiscal responsibility system strengthened localities' profits within a short period of time. Since 1980, when the local fiscal responsibility system was put into effect, local profits have grown steadily, while fiscal accomplishment became an important content in assessing local governments. Under these conditions, local governments would on the one hand do all they could to accomplish their fiscal responsibility missions; while on the other hand, after the local fiscal responsibility was put into effect, the standard of living of each locality's inhabitants was coupled with that locality's finances. Moreover, these finances were also directly interrelated with enterprise profits, so that the maximization of profits also became an essential pursuit for the localities. Under conditions of price swings, each locality was forced to limit as much as possible their quest for added-value by processing, as in the small input, fast results and big profits trend of the high value added processing industry. The processing industry's course of development can cause an even fiercer scramble for resources, and this scramble for resources must be followed by an economic blockade among the localities. Conversely, this can also encourage individual systems, a developmental trend towards similarity.

During the past several years, the state policy on localities and industries has been insufficiently perfected, too weak a measure for regulating the arrangement of industries among localities. In recent years, the national policy on localities has been heavily tilted towards localities—putting emphasis on encouraging development in certain localities would spur development in other localities. At the same time certain localities were benefitting from favorable policies, they were not made to assume the corresponding responsibilities and obligations. This created a contradiction whereby various localities falling under the national policy of encouragement were faced with unequal and equal burdens of responsibilities and obligations. Some coastal development regions that received favorable treatment under the national policy of encouragement failed to do their utmost to develop high technology industry or an export-oriented economy, while still firmly entrenched on the basic position of processing, oriented to the domestic market. Some localities that have less firm economic and technological bases also have not added sufficient strength even for the processing industry. The state has still not formed a policy that effectively regulates benefits among localities. The intent of the industrial policy currently in effect is to perfect the overall industrial structure nationwide, to provide support and restrictions concerning industries and products throughout the range of industrial sectors and products. Meanwhile, they have not fully looked into industrial space allocation, still lack policies on how localities and industries can complement each other, and still cannot achieve the following two divisions of work. This will lead to a division of work between industries and localities, as well as a specialized division of work between them. This continues the developmental trend to similarity.

The imperfections of the price system and the imperfect formation of market mechanisms created the existing and

developing external environment for the structural similarity in the various local industries. Because of an illogical pricing system, those localities which were relatively superior were still incapable of full accomplishment, and there were serious variations in the profit relationships across regions. Some provinces which were processing leaders were differentiated on the basis of imports of low-priced raw materials and on financial payments to higher authorities as benefits coming in and going out. Moreover, the state's compensation measures are also imperfect, so that some provinces that are leaders in resources inevitably lost interest in developing basic industries. At the same time, the imperfect market mechanisms and the lack of normal competition also caused some of the more technologically backward localities to retain some of their general processing industries. On the one hand, those which had attained superiority maintained their grip on the market; on the other hand, those which had not attained superiority could carve out a part of the market by noneconomic means. As for those industries which are highly dependent upon resources, because the price of resources was too low and the state will make allocations and transfers at a low price, both the resource-producing areas and the areas distant from the resource-producing areas possess the prerequisites for developing that industry. As for some newly-emerging processing industries, whether driven by profits, or rushing headlong into activity, or duplicating imports, in a rational division of work among localities, pricing and market factors have not been utilized as they should coordinate industries.

In the historical view, the economic structures of those localities which formed their own systems over a long period of time have a motion inertia. For a long time after the founding of the People's Republic, our leading thought in local economics stressed that each locality should form its own system, develop completely, conduct independent operations, so each locality formed its own systematic structure. After the Third Plenary Session of the 11th Party Central Committee, we began to put more emphasis on bringing into full play the strengths of each locality, striving for macroeconomic benefits, emphasizing division of work and coordination among localities, according to the coordinated needs of socialized mass production and specialized division of work, smashing the closed model local economic structure. However, for a long time the self-formed systems' economic motion already formed a reserve foundation, the various localities' reserve structures were greater in their similarities than in their differences, providing a definite material foundation for later similarities in development, making it even easier for newly formed local economic structures to adopt similar industries.

We should note a problem here: the limitations of economic development levels and the manufacturing process itself require that each locality's industries be somewhat similar in structure, in the direction of some large quantity, difficult to stockpile, high consumption, low-cost per unit industries and products; it is impossible to overemphasize division of work among localities, and it is also not in keeping with economic laws.



Moreover, in some industries and products where the scope of economic benefits is more obvious, the technological level is higher, and the distribution of resources among localities is unequal, so that the similarities carry with them even more negative influences, while in China the local industries are even now moving towards these industrial similarities. This was created over a long time by such factors as the system of organization, policies, and our leading thought; it is not an objective requirement in the course of economic motion.

Structural similarity at the very least causes the following unfavorable influences national economic development:

1. There are sharp contradictions between basic industries and processing industries. Similarities are characterized by maximum short-term benefits and along with them contention for and blocking off of resources. On the one hand, the too-rapid development of processing industries has greatly increased the requirements of basic industries; on the other hand, the quest for quick success and short-term results also restricted the development of basic industries to a great extent, making the contradiction between processing and basic industries even more prominent.

2. It has caused a double loss: the scale of economic benefits from local economies and the benefits from division of work. When the conditions are similar, coordinated division of work among localities is difficult to carry out over wide areas, and a structure in which industries are popping up all over the place also limits expansion of the industrial structure. For example, in recent years there has been a surge in various localities of color TV and refrigerator production lines, really forming the scale of economic benefits into the smallest possible production scale.

3. It has intensified economic frictions and economic blockades among localities. Because of the too-rapid development of the processing industries, limited resources are accordingly insufficient; to realize their local profits, resources, energy, funding and technology have become objects of contention among localities, and the accompanying competition leads inevitably to localities blocking each other from resources and carving up the market.

**Interview With Light Industry Ministry Official**  
90CE0214A Beijing RENMIN RIBAO OVERSEAS  
EDITION in Chinese 19 Apr 90 p 3

[Article by staff reporter Peng Jialing (1756 0857 7117): "Science and Technology Are the Guide for the Vigorous Development of Light Industry—Interview With Zhang Yujie (1728 1342 0267), Director of the Science and Technology Department in the Ministry of Light Industry"]

[Text] [Reporter] Under the circumstances of the current market slump, how can light industry leap out of the slump?

[Zhang Yujie] What is called a market slump is a situation in which things are not sold. But is there really a glut of things? I think not. Speaking of light industry

products, it is not the case that there are too many things that do not sell, but rather it is the case that the consumer goods we produce do not completely satisfy the consumers' demand. Speaking of the exhibition meeting to assess and market new light industry products that was held in December last year, there were many visitors and customers, and every day they formed a long line waiting to enter the exhibition hall. Business in the marketing exhibition room was quite good. As expected, factory owners from all provinces and cities came to the exhibition. From this we conclude that there is a great potential to be tapped on the light industry product market, and the key is the renewal and replacement of products. Incidentally, why in the past several years have "foreign" goods been able to flood the domestic market? Isn't it because they are new, rare, and of high practical value!

I note this phenomenon: Under the circumstances of the current market slump, all enterprises that are run well, besides those in which the level of management is fairly high, more importantly are run well because of the enterprise's technological progress, its meeting the market demand, and its not having overstocked products. Therefore, through survey and research on the market and on enterprises, we have reached the conclusion that the market slump phenomenon more clearly shows the importance of science and technology, and that only by depending on science and technology can we help the enterprises to tide over their difficulty.

[Reporter] Could you please discuss the situation with respect to Japan's serious attention to the guiding role of science and technology?

[Zhang Yujie] I formerly worked for the State Science and Technology Commission, and, after going to Japan, I paid a great deal of attention to the situation with respect to the scientific and technological development of Japanese enterprises. The proportion of their total output value set aside for scientific research by Japanese enterprises is many times that of ours in China. Between their enterprises strict secrecy is maintained, but new technologies and new products very quickly spread out in the open, promoting technological competition and progress in all of the industry.

[Reporter] Please discuss the situation with respect to science and technology in China's light industry and the scientific and technological measures to vigorously develop China's light industry.

[Zhang Yujie] China's light industry developed from handicraft industry, and its foundation is weak. There are many small- and medium-sized enterprises, many collective enterprises, and many township and town enterprises. Some enterprises, proceeding from their immediate interests, do not attach importance to technological progress, do not consider investment for technological transformation and the renewal of products, and their structure is one in which the products do not satisfy the need. Of course, funds are a problem.



Therefore, the main battlefield for the technological progress of light industry is the enterprise, and the starting point of the enterprise's technological progress also lies in the utilization of technology and the development of new products.

[Reporter] Over the past two years the Ministry of Light Industry has attached a lot of importance to the scientific and technological activities of light industry. Can you give a specific briefing on this?

[Zhang Yujie] Yes. At the end of March this year, in the ministry there was held a scientific and technological work conference, which was on the largest scale, of the light industry system. Taking part, subordinate to the ministry, were more than 30 light industry research institutes, eight large colleges and schools, eight design institutes, and 35 key enterprises (groups). It set up an all-China light industry new product development coordination network, prepared to set up an all-China light industry design coordination network, and planned in Beijing to develop a light industry new product exhibit and assessment department. The ministry has allocated a special fund for the development of new products and new technologies. It is formulating ways to manage, keep statistics on, examine, and award new products; and is compiling a technological catalogue to encourage the development of new products and new technologies, and to restrict and eliminate through selection products, which will be published once at the end of every year. It is promoting the technological progress of enterprises, and choosing and commending a number of scientific and technological forerunner enterprises. The ministry is changing its concepts, changing its functions, and changing its work style in order to really serve the enterprises. A technology committee will be set up in the Ministry of Light Industry, and it will unify and coordinate all links in the scientific and technological work of the ministry. At the end of this year it will hold the "First Light Industry Fair," at which there will be a Science and Technology Hall, and at the same time it will hold the second Scientific and Technological Activities Week. And so forth and so on.

[Reporter] Last year China's exports of light industry products increased 20 percent. Does this show that our technological capability for light industry products has been strengthened and that our competitive strength abroad has been increased?

[Zhang Yujie] In recent years, by getting a grip on technological progress, the number of new light industry products has increased and our competitive strength on the international market has increased, but the situation is still far from satisfactory. Last year there was an increase in exported light industry products, a very big part of which was a quantitative increase. There were many traditional products (mainly in the 11 big types of the principal light industry exported products). Although some of the traditional products had been improved in the industrial art, technological, and functional aspects, and even more of them had gone on the international

market. From a look at all of the light industry exported products, we see that there are still not many high-grade, high add-on value products. This precisely shows that light industry, with science and technology as its guide, has become a problem that urgently needs to be solved, and light industry's development of new technologies and new products also brooks no delay.

## COMMERCE

### Shanghai's Current Market Problems, Countermeasures

90CE0052A Shanghai SHANGHAI JINGJI  
[SHANGHAI'S ECONOMY] in Chinese No 1,  
30 Jan 90 pp 19-22, 57

[Article by Xiao Kerong (5135 0344 2837) of the Shanghai Academy of Social Sciences; Responsible editors: Li Xinsheng (2621 2450 3932) and Gong Xuelin (7895 7185 2651): "Shanghai's Current Market Problems and Countermeasures"]

[Text] The major features of Shanghai's market in 1988 were repeated price rises, frequent waves of panic buying, a large rise in sales, all commodities being in short supply and great demand, and a sharp drop in people's bank savings. But due to the gradual implementation of the policy of improving the economic environment and rectifying the economic order in 1989, Shanghai's market acquired the totally different features of brisk commodity sales slumping, rising prices falling again, low commodity stocks increasing, and people changing their hedges against inflation from buying goods to saving money. Although these changes have played a positive role in easing the conflict between supply and demand, stabilizing the market and prices, and reassuring the public, it should be realized that current market conditions are still very grim, and many difficulties and problems still exist.

**1. The Conflict of Demand Exceeding Supply Has Certainly Not Been Truly Eased:** Although many factors are playing a joint role in causing the current slump in market sales in Shanghai and even throughout the PRC, I think that the following two major ones are playing the decisive role: 1) Tightening of credit is the most effective means that the state is using to enhance macroeconomic control, because it has the immediate effect of forcing enterprises to clear out their inventories, which is increasing effective market supplies. 2) Raising interest rates on bank savings deposits is diverting people's purchasing power from actual purchasing power to potential purchasing power. By the end of September 1989, urban and rural residents throughout the PRC had 100 billion yuan, or 26.3 percent, more savings deposits than at the beginning of the year, 80 percent of which were a hedge against inflation. In addition, the impact of the psychological role of consumer backlash, suddenly eased the previous shortage of market supplies and produced the current sales slump. However, it absolutely must not be thought that this has improved market

conditions, brought about a buyer's market, or put the market into normal operation. In fact, although our 1990 GVIO [Gross Value Industrial Output] has increased again after the overly rapid rate of growth in 1989 and our agricultural production is also going well, they are still inadequate to meet the needs of our excessive purchasing power. Moreover, although our capital investment and consumer fund growth rates have slowed, they are still not low enough. Thus, the conflicts between supply and demand are still very great. The Ministry of Commerce has estimated that the 1989 commodity supply shortage throughout the PRC reached approximately 80 billion yuan, with Shanghai's also amounting to some billions of yuan. It is thus clear that the current easing of the conflicts between supply and demand, and even the sales slump which has occurred, are merely temporary and superficial phenomena, and that the true conflict of demand exceeding supply has certainly not been resolved. We must clearly understand that new market fluctuations may occur if we are even slightly careless.

**2. The Difficulties Confronting Industrial Production Are Affecting Commodity Supplies:** The industrial production sector is now encountering the following three major conflicts: 1) a shortage of circulating funds; 2) marketing problems; 3) huge shortages of raw materials, especially farm produce and minerals, and steady price rises. These three glaring conflicts are putting agricultural producers in the dilemma that, if they advance, will be unable to sell the products that they produce, which will both ground their funds and make it impossible to improve their economic efficiency; if they retreat, they will be unable to meet their contracted quotas, which will cause the state, enterprises, staff members, and workers all to sustain losses. The point at which these three conflicts intersect is the sales slump, which makes enterprises unable to recover their circulating funds in time, leaves them no money with which to buy raw materials even when they are available, and makes it difficult for them to carry out reproduction. A major factor in the current severe loan arrears among enterprises, is that goods payments cannot be made in time because products cannot be sold, which ultimately makes enterprises shut down or reduce output. This predicament has already appeared in Shanghai's industrial production. Although Shanghai's GVIO rose each month between March and June in 1989, passing the 10-billion-yuan mark, it fell again each month beginning in July, with the decreases in July, August, and September amounting to 3.64 percent, 0.33 percent, and 2.55 percent, respectively. Moreover, Shanghai experienced an even greater drop in light industrial output value, which has a direct bearing on people's lives, with monthly decreases in July, August, and September 1989 amounting to 6.32 percent, 3.55 percent, and 0.51 percent, respectively. After September, light and heavy industry both declined. What made people particularly anxious was the especially critical decrease in the production of many previously hot-selling commodities. Comparing September 1989 with September 1988, color tv output value dropped

82.3 percent, output value in the instruments and meters industry dropped 18.4 percent, output value in the computer industry dropped 33.3 percent, and the space communications industry operated 28.8 percent under capacity due to the unmarketability of products, such as household appliances, which resulted in deductions in the take-home pay of staff members and workers in an increasing number of enterprises. If prompt and effective steps are not taken to deal with this situation, not only will it have a very detrimental impact on overall national economic growth, but sources of market goods will be exhausted, which in turn, will result in severe market supply shortages.

**3. A Conflict Has Arisen Between Steadily Dropping Retail Market Prices and Steadily Increasing Enterprise Production Costs:** In order to break out of their market sales slump and resolve the problem of inadequate circulating funds, both industrial and commercial enterprises have been taking various steps to promote the sale of their goods for some time now. Many enterprises have also been using the easiest means of offering consumer incentives through conducting cut-rate sales contests, and have been trying a great variety of tricks, such as so-called concessions, cut-rate sales exhibitions, sales premiums, grand auctions, great cut-rates, and sales rebates. Thus, overall prices have been dropping month after month in recent months. However, market commodity sales have still not picked up, and sales volume has not only not risen, but has dropped instead. A major reason for this is that consumers think that prices have still not been reduced enough, and that prices have been reduced mostly for unmarketable, overstocked, and inventoried goods, but certainly very little for commodities that truly suit their needs and whose prices have risen too high. The masses of people generally think that it would be best if overall prices fell to the level previous to 1988. However, the following factors have caused a sharp conflict between rising enterprise production, marketing costs, and steadily dropping retail prices in 1990: 1) The prices of energy and raw materials have risen sharply. The capital goods price index throughout the PRC for the first half of 1989 was 28.4 percent higher than for the same period in 1988, of which 9.8 percent was due to new price increases in 1989, including a 50-percent increase in the prices of minerals, such as coal, copper, aluminum, and sodium carbonate, and a more than 30-percent increase in those of building materials, such as rolled steel and cement. As raw materials generally account for 80 percent of the PRC manufacturing industry's production costs, these large price increases for energy and raw materials have been hard for enterprises to digest, and have inevitably caused production costs to rise. 2) Interest rates on bank loans have risen, and taxes and all other miscellaneous expenses have increased. Interest rates on bank loans rose from nine percent in 1988 to 11.34 percent in 1989, while those on interim borrowing rose 30 percent. The increases by tax collection departments in taxes, such as printing taxes, land use taxes, education surtaxes, and appreciation taxes on foreign manufactured products, in

addition to the increases in other miscellaneous expenses, further increased enterprise production costs. Under these conditions, enterprise economic efficiency dropped sharply even if products were sold at former prices, while selling them at reduced prices not only made things hard for enterprises, but caused even greater difficulties for national revenue. Meanwhile, the obvious difficulty was still how to break into commercial markets without reducing prices.

How to enable Shanghai's market to both free itself from the previous years of too brisk sales and also break out of its market slump since 1989 are issues that cannot be resolved simply by talking about the market in isolation from other factors. As the market is an overall reflection of the national economy, many factors, such as the relations between macroeconomic and microeconomic policy, production and circulation, and the economy and society, which play a joint role in determining whether the market is "brisk" or "in a slump," must be studied systematically and thoroughly and brought under overall control. Thus, I am suggesting countermeasures in the following two areas:

#### **I. Controlling Overall Demand and Increasing Overall Supply**

**1. The Law of Currency Circulation Should Be Observed, and the Money Supply Should Be Strictly Controlled:** Although the law of currency circulation is that commodity supply determines money supply, our money supply has grown much faster than our commodity production and the amount of commodities that we have put into circulation since 1984. Our money supply increased 49.5 percent in 1984, 24.7 percent in 1985, 23.3 percent in 1986, 20 percent in 1987, and 46 percent in 1988, which has left too much currency in circulation. This is the major reason why our overall demand has far surpassed our overall supply in recent years. In order to curb overall demand, it will be necessary to abide by the law of currency circulation and strictly control our money supply. The amount of money put into circulation should be limited by our economic growth rate, and particularly by the amount of commodities put on the market each year by the state. Neither the amount of consumer funds put into circulation, nor the amount of bank loans granted, should be allowed to exceed this limitation.

**2. Investment in Capital Construction Should Be Firmly Reduced:** The major reason why our money supply has been too large and uncontrollable in recent years is that we have invested too much in capital construction. Although we have achieved a certain amount of success in reducing our investment in capital construction since we began to improve our economic environment and rectify our economic order in 1988, we have still fallen short of our original plans. In addition to the necessity to continue rounding-off work on certain projects that were underway, a major reason for this is that many projects which had just been started and could have been discontinued, were not due to local protectionist obstruction.

Thus, while strictly controlling investment in new projects, it will be essential to give priority to sorting out those that are in progress. The major reason why we were unable to control our investment in capital construction in recent years, is that we did not control beyond-plan investment. As, in addition to local money, the major source of funding for beyond-plan capital construction is bank loans, it will be necessary to control local credit funds in order to control investment in capital construction. The best way would be to set specific capital construction loan quotas for all localities, in order to keep local capital construction credit funds from increasing.

#### **3. The Growth of Consumer Funds Should Be Controlled:**

Reducing our investment in capital construction is also an effective way to control the growth of consumer funds, because 40 percent of our investment in capital construction is transformed into consumer funds. Wage increases must be adapted to economic efficiency, with economic efficiency referring here mainly to the economic efficiency achieved after products are sold. The current competition among quite a few enterprises in wage and bonus distribution, and that within industries in particular, has caused the strange phenomenon of poor economic efficiency along with high wages and bonuses, which is also a major reason why consumer funds have been out of control in recent years. Thus, linking wages and bonuses to economic efficiency will keep consumer funds from increasing faster than economic efficiency, and can also prevent distribution equalitarianism. In order to control the growth of consumer funds, it will be necessary to also control collective social purchasing power, and hidden income and expenditures in particular. The growth of unhealthy tendencies in recent years has allowed many sectors to slip the state and the people's money into the pockets of small groups and individuals in various ways, under the guise of developing tertiary industries. On one hand, the current excessive consumer funds were caused mainly by the increase in hidden income through methods such as material objects and work fees being given to staff members and workers from enterprise treasuries, as well as some cadres, staff members, and workers receiving gifts, taking bribes, and being paid sales commissions. On the other hand, hidden enterprise expenditures through methods such as using capital construction funds to buy expensive consumer goods and stationery, pay for various outside expenses, pay various sales commissions, give dinners, and send gifts, are also a significant source of consumer fund growth. Thus, another key aspect of controlling consumer fund growth will be eliminating hidden income and expenditures through methods such as checking unhealthy tendencies, inventorying enterprise treasuries, and keeping strict financial and economic records.

**4. Consumer Funds Should Be Diversified:** The impact of many political, economic, and social factors has focused the consumer expenditures of PRC consumers in one area and tended to make them too alike. Most consumer

income is used to buy consumer goods, while very little is used to pay other expenses. In addition, distribution equalitarianism has given PRC residential consumption the feature of being very synchronized, in that people say to each other, "If you can afford it, then I can afford it too." This has engendered a consumer atmosphere of mutual competition and emulation, in which either everyone buys or no one buys. This consumer atmosphere has heavily assaulted PRC markets and generally caused a commodity mix imbalance, in which commodity A is sold out while commodity B is overstocked at times, and commodity B is sold out while commodity A is overstocked at other times, which makes it very hard for the state and the commercial sector to make appropriate market plans. Thus, in addition to correctly guiding consumption, consumer funds should also be diversified. For example, offering commercial housing for sale, selling stocks and bonds, putting a certain amount of gold and silver jewelry and expensive consumer goods into circulation, launching cultural recreation and tourist activities, and encouraging savings. In particular, urban housing commercialization should be speeded up, because it is the safest and most effective method of diversifying consumer funds. But since it now costs more to build new public housing than ordinary residents can afford, priority should be given to selling about one-half of the existing public housing to its occupants at prices most of them can afford. In addition to diversifying a considerable amount of consumer funds, this would also enable the state to rather quickly acquire a nice sum of construction money. If this were then put into bank savings, it would earn interest equal to raising existing housing rents 10 to 20 times and relieve the state of a considerable amount of upkeep, which would truly be achieving several results with one action. If this idea was coordinated with rent reform, twice the results could be achieved with half the efforts.

## **II. Conscientiously Resolving the Problems Involved In the Current Market Sales Slump**

**1. Economic Levers, Such as Prices and Interest Rates, Should Be Used Flexibly and Correctly:** Prices and interest rates are effective means of regulating market commodity supply and demand and currency circulation. Prices can directly stimulate or curb consumption and, as an economic lever, should be used flexibly and correctly according to market supply and demand. During the current sales slump in which the prices of many commodities are too high, prices should and must be reduced as a consumer incentive, even though it means temporarily losing money, because it is fruitless to maintain high prices for products which cannot be sold. This not only ties up enterprises' funds, but also burdens them with storage fees and bank loan interest rates and makes it hard for them to carry out reproduction, which causes factories to shut down and affects overall social stability. Similarly, interest rates must be set properly. Too low interest rates are detrimental to attracting savings, while too high interest rates might attract savings that should not be attracted, and affect market

commodity demand. Thus, we recommend changing the PRC's relatively stable nationally standardized interest rates to nonstandardized fluctuating interest rates, in order to enable them to become an effective means of regulating currency circulation and market supply and demand.

**2. The Current Favorable Opportunity Should Be Taken Advantage of To Promptly Restructure Industry and Product Mix:** A glaring problem that exists in our industrial structure is that the curbing of agricultural development, and the manufacturing industry being larger than basic industries that produce raw materials, have caused supply shortages and price rises for raw materials. This should be resolved in the following ways: 1) Our agricultural investment should be increased to promote agriculture. 2) While stepping up production of energy and raw materials, the current favorable opportunity of the sales slump in manufactured goods should be taken advantage of to firmly restructure enterprises which consume too much energy and raw materials and have poor labor productivity, product quality, and economic efficiency, through shutting down, merging, and upgrading, in order to roughly adapt the manufacturing industry to basic industries that produce energy and raw materials. This will reduce the shortages of energy and raw materials while helping to lower their prices and thus, lay the foundation for controlling the manufactured goods price index. Quite a few of the products that cannot be sold now are not to people's liking, while those that are truly of high quality, low price, and in line with consumer needs, can still find markets, some even being in short supply and great demand. An analysis by the department concerned has found that demand exceeds supply for about 30 percent of the manufactured goods for daily use on Shanghai's current market. It is thus clear that the basic way to break out of our current market sales slump, will be to restructure our product mix, in order to make our products more marketable and entice consumers with new ones.

**3. Credit Should Be Eased Appropriately:** Although tightening credit is a method that is widely used by all countries throughout the world to curb inflation, to what extent and how credit should be tightened are quite involved matters. While the "across-the-board" method that we are accustomed to may seem to achieve quick results, it actually has many drawbacks. As money is the lifeblood of enterprises, too-easy credit cannot control inflation, while too-tight credit causes enterprises money shortages and brings their production and management activities to a standstill. We think that the overtightening of credit since 1989, in addition to the market sales slump in recent months, have left enterprises with a critical shortage of funds, and made it hard for them to carry out their normal production and management activities. Thus, credit should be eased appropriately to give enterprises the necessary funds to maintain their normal production and management activities, while nonproductive and capital construction loans should be kept tightly in check. Circulating fund loans should be

granted mainly to large- and medium-sized enterprises, because they are the PRC's major producers and suppliers of power, raw materials, and manufactured goods for daily use. In particular, priority should be given to granting loans to either enterprises which produce marketable products with good economic efficiency, or those with the capability of developing new products and achieving good economic efficiency quickly. The following steps should be taken to quickly resolve the current issue of loan arrears among enterprises: 1) starter fund loans should be increased; 2) banks should set up stock exchanges or debt-clearing companies to clear up "triangular debts" through ways, such as clearing, discounting, or mutual cancelling of notes; 3) until old debts are cleared up, all transactions should be carried out with cash or money orders, in order to prevent new debts from being incurred.

**4. Regional Blockades Should Be Eliminated, To Enable Commodities To Circulate Freely among Regions:** The sales slump has caused all areas to set up new regional blockades recently to protect regional interests. Some regions forbid the sale of products from other regions, while others use methods to exclude products from other regions, such as having banks refuse to grant loans, setting up customs checks, or using coercive measures to prohibit interregional commodity circulation. As these methods actually seek temporary relief regardless of the consequences, and will only smother regional economic growth in the end, the following countermeasures should be taken: 1) Our feudal, separatist, and self-sufficient small-scale peasant economy ideology, which has existed for thousands of years, must be criticized. 2) The existing economic basis for this ideology must be changed. Although the separation of national and local revenues and general separation of national and local responsibilities that we have carried out in recent years have aroused local initiative to a certain extent, their defects of interest and regional protectionism have also become increasingly obvious. Although it will be necessary to change our system of general separation of national and local responsibilities to separate taxation in order to eliminate regional economic blockades, it is hoped that separate taxation will not become simply a refurbished version of general separation of national and local financial responsibilities. 3) The state should take administrative steps to investigate and affix the administrative responsibility of local leaders who deliberately put up regional blockades.

**5. The Guiding Role of State-Owned Commerce Should Be Brought Into Full Play:** Although many economic components exist in the initial stage of socialism in the PRC, state-owned commerce still plays the leading role in the field of circulation, because it is the commercial sector that is run by the state. In particular, the state-owned wholesale commercial sector must not only earn legal profits through purchase and sale activities just like ordinary managers, but also has the inescapable responsibility of planning markets and balancing supply and demand. Moreover, the state-owned commercial sector

has the capability of regulating and planning markets in the areas of funds, personnel, network points, and organization establishment. In order to ensure that state-owned commerce can fulfil its responsibility to plan markets, the state should give it priority purchasing rights under equal legal conditions, and special management powers when necessary, over key commodities that concern the national economy and the people's livelihood. During the current market sales slump, the state-owned commercial sector should make full use of its favorable conditions and bring its distinctive capabilities into full play, to actively promote commercial sales. As the PRC encompasses such a vast territory, many commodities may be overstocked in one place but sold out in another, saturated in cities but in short supply and great demand in rural areas, and glutted in the interior but insufficient in border districts. Our past experience shows that it is a common occurrence for commodities not to be able to be sold in time because circulation channels are not open enough. Provided staff members and workers in our whole commercial sector go all out, cooperate closely with our industrial sector, get the proper financial support from banks, take advantage of the arrival of the current busy market season, and adopt diversified sales approaches, it is hoped that we will be able to quickly overcome our current problems.

## FOREIGN TRADE, INVESTMENT

### Economic Sectors To Receive Direct Foreign Investment

90OH0443A Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 1, 31 Jan 90 pp 14-20

[Article by Li Xiangyang (2621 0686 7122): "On the Selection of Sectors To Receive Direct Foreign Investment"]

[Text]

#### I.

Direct foreign investment is one kind of entrepreneurial capital, its chief utility being the international transfer of technology. This is one of the fundamental differences between direct foreign investment and international commercial credit. Other than technology transfer, some objectives for the host nation in attracting direct foreign investment are earning foreign exchange through exports, raising funds, creating jobs, etc., depending upon the differing circumstances. However, the amount of this investment that the host nation can bring in within a certain period of time is not limitless, due to a great variety of restricting factors (e.g., concern over sovereignty, the amount of profits which must go for expenses internationally, etc.). Therefore, the selection of those sectors which are to receive direct foreign investment has become an important policy decision in this process. At the same time, rational selection of these sectors is also an important condition for achieving the

objectives of direct foreign investment. This point is especially important for the development of China.

China's objectives in bringing in direct foreign investment are to obtain advanced technology and raise foreign exchange through exports. This conforms to our national conditions. From 1979, when the first enterprise using foreign investment was established, up to the end of 1987, the total amount of direct foreign investment used was US\$8.55 billion.<sup>1</sup> Distributed by industry, China's principal emphases in bringing in direct foreign investment have been the energy industry, the light textiles industry, and the hotel and service industry. Therefore, the distribution characteristics of direct foreign investment in China can be summarized as follows: 1) A low level of technology. According to the international standard for differentiating between high-, medium-, and low-technology<sup>2</sup>, the aforementioned three industries which are the foreign investment emphases basically cannot be categorized as high-technology industries. 2) A concentration solely on accruing foreign exchange through exports. Service industry sectors constitute nearly half of the total of direct foreign investment, with the hotel service industry standing alone in the dominant position. This industry is characterized by low investment and rapid results. This is especially the case with high-grade hotels and guest houses, which have been highly effective in raising foreign exchange. 3) The "underdeveloped industries" in the domestic economy are made the focus in attracting direct foreign investment, with their technological level or ability to earn foreign exchange never taken into account. Energy industries are an example of this. Obviously, the distribution of sectors now receiving direct foreign investment are, to a very great degree, contrary to China's direct foreign investment goals. This is especially the case with China's goals in importing technology.

Naturally, there are various factors which go into determining whether a nation will be successful in attracting direct foreign investment, including the method of by which it is brought in and the method of investment. In general, these factors can be divided into three categories: at the national level, at the industry level and at the enterprise level. This article will be confined to analyzing the enterprise level as an influential factor.

## II.

### 1. The effect of the distribution of direct foreign investment upon the import of technology.

According to the theory of production decline in multinational corporations, the most important condition for a multinational in making direct investment abroad is that the multinational be superior in many respects to local enterprises or other competitors in the host country. These include superior proprietary rights, superior location and superior internalization. Superior proprietary rights are chiefly indicated by such things as: advanced technology, a pattern of economic profits,

investment opportunities, dispersal of market operations, concentrated markets, production efficiency, obtainable materials, product diversity and oligarchical behavior. Superior internalization is taking proprietary rights developed in the market, and transferring these to the development of an enterprise's internal channels, in order to improve the composition of their superior priority rights. Superior location is chiefly indicated by such things as production costs in the locations selected as production sites, transfer costs and political risks, etc. From this we can see that whatever a multinational may accomplish in its international production, it is by no means dependent solely upon its technological superiority. Different multinationals will vary greatly in the ways in which they are superior, regardless of whether it be at the national, enterprise or industrial level.

At the industrial level, the multinationals in different industries basically engage in international production activities through differing areas of superior proprietary rights. In the excavation industry, multinationals' superior proprietary rights often derive from their having capital and nearby markets, with technological superiority by no means the most important. Its goals lie in going through the process of market internalization to ensure obtaining a stable supply of materials at a fair price, while controlling the market. In the service industry, their superior proprietary rights lie chiefly in world markets being nearby (due to dispersion of superiority), as well as technological superiority in such things as trade marks, reputation, etc. In low technology manufacturing industry departments, superior proprietary rights lie chiefly in what capital they have, nearby markets and production costs, with technological superiority expressed even more in trade marks, reputation, managerial function and product diversification. Moreover, in medium- and high- technology industries, multinationals' superior proprietary rights lie in their ability to do research and development with their surplus capital and technology, as well as the economic scale, etc. Their goal lies chiefly in technical development.

One can see that multinationals in different industries vary greatly in their technological superiority, with a correspondingly great variance in their power to engage in international production. We know that these differences in technological superiority (which reflect the industries' technological level and ability to come up with new technical ideas) and power to engage in international production echoes how quickly, how much and how advanced is the technology transferred to the host country. In general, comparing multinationals in medium- and high-technology industries with their low technology counterparts, the former tend to transfer more technology and more advanced technology to their subsidiaries abroad (and sometimes to companies that are not their subsidiaries) and to be more expedient in doing it. Evidence of this lies in the fact that in the 1970's, the multinationals which were the most prompt in transferring technology to their subsidiaries were found in such industries as chemicals, semiconductors

and pharmaceuticals, industries in which technological progress is made more rapidly.<sup>3</sup> The internal transfer of technology in U.S. multinational corporations<sup>4</sup> also indicates that the ability of multinationals in the creative industries to transfer technology is far greater than that of multinationals in the excavation and service industries.

Therefore, in attracting direct foreign investment, the great majority of developing nations have emphasized sectors of the manufacturing industries. In 1978, foreign direct investment in developing nations was distributed this way: 64.5 percent in manufacturing industries and 22.7 percent in service industries. Among these, the countries which were more successful at attracting foreign direct investment were Brazil, Mexico, South Korea and Thailand, in all of which the manufacturing industrial sector's proportion was in excess of 70 percent.<sup>5</sup> In comparison, the distribution of China's sectors which attract foreign investment has an obviously negative effect on attracting technology.

2. Further analysis of the distribution of the sectors receiving foreign direct investment in their attraction of technology.

Looking at the key industries which receive foreign direct investment, the objective in attracting technology is not only to raise their sectors' technical levels, it is also intended to raise further the technical level of other sectors, and ultimately their own ability to blaze new trails in technology. No matter whether it is to raise the attracting sector's technical level, or further the technical level of other sectors, all require that the attracted technology be spread effectively throughout the economy. Therefore, a determination as to whether a nation has been successful in attracting technology requires a look at the nation's ability to attract technology, how much is brought in, and to the technology's degree of advancement or suitability. It is even more important to look at how effectively the attracted technology has been spread throughout one's sector and other sectors.

First of all, let's look at how well different sectors have disseminated to other sectors the technology they have attracted. One of the main channels for disseminating technology among sectors is for a sector passing attracted technology down to less advanced industries, providing them with higher quality or low cost commodities, in order to raise the technological level of these industries. Another is for the sector attracting the technology to act as they need it, in order to supply less advanced sectors with market and technological information, etc., which will give a spur to raising the latter's technological level. When one sector's technology is spread to other sectors it can be said to have produced a technological "spillover effect." To judge the degree of "spillover effect" in different sectors, the U.S. economist Xi-er [2957 1423] has researched a technical flow rate matrix, which provides a specific measuring index. He made a study of the amount of research and development invested by a

sector in comparison to the amount of research and development that the sector ultimately used, with the former representing the sector's level of technical innovation, and the latter representing its level of technical application. If a sector's level of innovation is higher than its level of application, it is certainly a sector with positive technical overflow; if the opposite is the case, then it has negative technical overflow. Being a negative overflow sector by no means implies that its technical innovations do not spill over to other sectors; it just means that its level of technical application is higher than its level of technical innovation. However, looking at the data supplied by Xie-er, and comparing negative overflow sectors to positive ones, the former's innovative application of technology is somewhat higher.

The calculated results of Xie-er's study of the circulation of technology among U.S. industrial sectors indicate that: negative overflow sectors chiefly include such as agriculture, the excavation industry, light textiles (excluding furniture), finance and insurance, trade, etc., the service industry, transportation industry, construction and public utilities, as well as the ferrous metals industry; technology positive overflow industries chiefly include the machine-building and electronics industries, transportation equipment industry, the chemical industry, composite materials, etc. It is obvious from this that the technology positive overflow sectors are basically high-technology industries.

Among industries, the principal channel for technology dissemination is the circulation of commodities. And, within an industrial sector, while the principal channel for dissemination of technology is the circulation of commodities, of even more importance is their circulation among the labor force (there is also the transfer of technology via patents). The technology embodied in the labor force itself includes manufacturing methods, the technical ability to operate the tools of production, plus enterprise management methods. Some technical personnel still control technical "tricks of the trade" in the manufacturing process. Moreover, although multinational corporations sometimes transfer technology to enterprises in their own areas, still this is by no means all that they can do to simultaneously transfer technical "tricks of the trade." Therefore, one can say that circulation of the labor force is the principal channel for foreign investment enterprises' spillover of technology into industries.

Because in different industries there are differences in the technical level and quality of foreign investment enterprises, therefore there is a considerable gap in the spillover manufacturing technology circulated between foreign investment enterprises and local enterprises through the circulation of the labor force. In low technology sectors, the technical facilities and daily management are correspondingly simple, with key technical equipment and the management process plan arranged for an extremely small part of the personnel. Much of the latter are undertaken by foreign employees, and the great majority of indigenous employees do not need any



special technical abilities, so the circulation of these employees cannot produce any great technical spillover effect. High-technology industries are the opposite: foreign investment enterprises' technical equipment, production techniques and management methods are more complicated, requiring sizable numbers of technical personnel, middle and lower level management personnel and skilled workers. Therefore, the circulation of these personnel can produce a greater technical spillover effect. A survey taken of the technical origins of enterprises in various kinds of South Korean export sectors showed what was the percentage of the origins which derive from those technical personnel having work experience with foreign enterprises compared to the total technology origins. It showed that there was a considerable gap between different sectors. When the traditional export sectors of textiles, shoes, leather and toys are taken as the focus, the percentage was nine percent. In the export sectors where natural resources are fundamental, such as concrete and food processing, the proportion was 8.9 percent. In the construction industry export sector, it was 8.3 percent. But when the focus was on the modern export sectors of machine-building and electronics, rubber and synthetic fibers, the proportion reached 15.9 percent.<sup>6</sup>

A survey of Chinese foreign investment industrial enterprises (manufacturing industries only) showed that: at the end of 1985, the total number of staff and workers in all foreign investment enterprises was 77,900; of these, the percentages of engineering and technical personnel, management personnel and service personnel were 5.76 percent, 10.88 percent, and 3.93 percent respectively. And, in domestic industrial enterprises which are wholly owned by the people, the corresponding percentages were 4.09 percent, 10.72 percent, and 10.32 percent. One can see that in employee composition, foreign investment industrial enterprises do not have a great advantage over domestic industrial enterprises. According to the implementation plan for light and heavy industry (there is no more detailed delineation of sectors), the foreign investment industrial enterprises' engineers and technicians as a proportion of the total number of staff and workers is 3.5 percent and 10.1 percent, respectively. This indirectly proves that foreign investment enterprises in medium- and high- technology industries can employ a relatively high proportion of technical personnel. This can confirm that if all industries are brought in, the proportion of technical and managerial personnel employed in China's foreign investment enterprises will decrease even more. Based on the foregoing analysis, this obviously is of no benefit in importing and disseminating technology.

3. How the dispersal of sectors receiving direct foreign investment affects their ability to earn foreign exchange through exports.

At the industrial level, foreign investment enterprises in medium- and high- technology industries generally display a trend to be lower in exporting; this is especially the case in developing nations and areas. In high-technology

industries (e.g., pharmaceuticals, chemicals, computers and other office equipment), the industrial technology innovation rate is higher, with manufacturers relying chiefly on this kind of engineering system, so that they can completely adapt their unchanging products and new products to a rapid entrance into the market. This time, because of the difficulties in drawing up a precise sales plan, flexibility in the quantity produced is exceptionally important. At the same time, because a new product is a competitive weapon, production costs are not particularly important. Therefore, what they seek is not special area favoritism in the host country (e.g., cheap labor, an abundant supply of raw materials, etc.), but rather to capture that area's markets. The existence of broad markets and an ample supply of skilled labor are prerequisite conditions for multinational corporations to engage in international production. Besides this, because the products which these industries need put into their production have to be of a fairly high-technical level; therefore, although achieving economies of scale internationally is not important to them, they still show a higher importing trend.

If we say that enterprises in high-technology industries are new innovators, then, enterprises in middle technology industries (e.g., automobiles and nonelectrical machinery, etc.) are mature innovators. These enterprises act as followers of new technology, although they too have a fairly high capacity for technological innovation. Still, when compared with enterprises in high-technology industries, their technology is relatively mature, their products in the market are even more dependent on competitive pricing, and therefore low production costs are most important. At the same time, they belong to the category of industries in which capital is concentrated, so correspondingly the chief measure employed in lowering production costs for these multinationals is to achieve economies of scale by setting up subsidiaries in other nations. Their motivation in engaging in international production is to capture that area's markets; indeed, all the world's markets. Therefore, when compared with multinationals in high-technology industries, their exports tend to be high, but due to the need to achieve economies of scale internationally, they have to implement allocation and transfer of commodities among the subsidiaries they have in different countries, with the results again being that their imports tend to be higher.

Contrasted to this, in low technology manufacturing (e.g., light industry, textiles), most enterprises are users of new technology, not creators of it. They require a higher degree of flexibility in their products, price competition is more intense, so it then becomes paramount for them to seek lower costs. But because their capital is less concentrated, and there is a greater commitment of labor force and raw materials, therefore on a worldwide scale the search for low labor costs and a nearby supply of raw materials become important measures for lowering costs. Therefore, they usually have a greater tendency to export. At the same time, to a very great degree



they are labor intensive industries, making it difficult for them to achieve economies of scale among their subsidiaries in other countries, as do the capital-intensive industries, so they tend to have a lower tendency to import. A study showed that the world's largest multinationals' share of internalized trade in high- and medium-technology industries is 34.5 percent and 36.9 percent, respectively, while this share is only 9.5 percent in low technology industries.<sup>7</sup> China's accomplishments in putting exports into foreign investment enterprises basically conforms to the above theories. When foreign investment industrial enterprises are divided into light and heavy, heavy industry's export rate is 11.95 percent, while light industry's is 24.87 percent.

Naturally, dividing industries according to the level of their technology by no means implies that the sectors within a particular industry, or the products or the production technology process within the same industry are all alike. Actually, there is a very great difference between them. For example, electronics is a high-technology industry, but in the assembly stage of the production process and in the manufacture of consumer electronic products, the technology level is fairly low, with a high degree of labor intensity. Multinational corporations usually set up the international production of these processes or products in countries with low wage scales, so they can have higher export rates. As in 1975, when 49.7 percent of the electronic products manufactured in the Asia-Pacific region by subsidiaries of U.S. multinationals were exported to the United States.<sup>8</sup> However, if we look at the overall situation, an industry's technological level and its ability to earn exchange through exports are still interrelated.

### III.

As we can see from the above analysis, foreign investment enterprises' attraction of technology is usually connected to their capture of the markets in the host country, while foreign investment enterprises' earning exchange through exports is usually connected to low technology. In this sense, the two chief objectives in attracting direct foreign investment—the advanced technology it brings, and earning foreign exchange through exports—are in mutual conflict. We realize that, given the current situation regarding China's industrial structure, the characteristic conduct of key development sectors and multinationals in different industries will coordinate and take into account these two chief objectives of attracting direct foreign investment. We should apply these things we bring in broadly against the technological strength we already have.

Concentrating application of the direct foreign investment in those enterprises that are already more solid technologically, has, first of all, done much to further the multinationals' transfer of advanced technology. As related above, multinationals, especially those in high-technology industries, have a tendency to capture markets in host countries; therefore, their chief competitors are the host country's local enterprises which are in the

same industry, and those local enterprises which have the intrinsic superiority of being "first into the market." If the latter are also competitive technologically, then the multinationals must have greater superiority (especially technological superiority) before they can compete with the local enterprises. Therefore, in general, the higher the technological level of a local enterprise, the more advanced the technology that the multinational will transfer to its subsidiary. Second, the aforementioned concentrated application has done much to lower the cost of bringing in technology. The cost of technology transfer for the most part includes purchasing costs and acceptance costs. The former costs indicate expenditures involved in the process of purchasing technology, and the latter the expenditures involved in the later process of applying the purchased technology to manufacturing. When a foreign investment enterprise grants a sales license to a local enterprise, if the selling side's enterprise in that country has a higher technological level, it functions to raise its capacity to do business. In this case, capacity to do business encompasses that which is involved in the process of deciding to import technology, the possibility of choosing other technical sources, etc. Obviously, this will lower the cost of the sales license. Moreover, the selling side's higher technological level indicates that it has greater manufacturing experience, so that after the import license is granted, it will have lower expenses for what it puts into manufacturing. This will lower the acceptance costs. Third, concentrated application will do much to advance the development of exports. Enterprises that were technologically stronger to begin with can easily raise their technological level within a fairly short time by bringing in direct foreign investment, and thereby enter world markets while simultaneously forcing foreign trade enterprises to gear themselves to world markets. For example, in the early 1960's, South Korea began to attract direct foreign investment to their chemical industry, which was already basically sound. By 1968, they had attained self-sufficiency. Between 1969 and 1974, of their 79 foreign investment enterprises in this industry, 62 had entered the world market.<sup>9</sup> Moreover, in those cases where direct foreign investment was brought in by an enterprise that was already technologically strong, and had export superiority as well, those enterprises tended to have even higher exports.

What, then, are those Chinese industries which are sufficiently solid in their technological strength? A study done of this shows that during the period 1953 to 1984, in China's principal industrial sectors, the industries with higher technological indexes were primarily: petroleum, metals, chemicals, machinery, and textiles, as well as electrical power and railway transport.<sup>10</sup> The results of a 1985 national industrial survey showed that in that year the industries with the highest overall labor productivity rate (including public ownership enterprises only) were basically those listed above.<sup>11</sup> Therefore, we can consider these industries to be those in China which have sufficient technological strength. However, among these, the electrical power and railway transport sectors

function as basic industries in our national economy, and excessive foreign direct investment here could endanger our national sovereignty. At the same time, they are all technology spillover industries and industries which do not earn foreign exchange through exports, and so the world's nations are all completely restricted from putting any foreign direct investment into these sectors. The metals industry is a traditional industrial sector, and as the new technological revolution developed throughout the world, its technological position and trade position have both been in continual decline. Even its share of the postwar export trade in developing nations showed a tendency to decline. Therefore, international direct investment in the metals industry is for the most part distributed among those developing nations that lack the capacity for producing basic metals. Obviously, none of these sectors should be key industries for attracting direct foreign investment to China. As for the petroleum industry, the focus of the current phase of China's attracting direct foreign investment is the development of offshore oil, which is, of course, due to China's current lack of technical ability to open up its offshore oil by itself. However, it is worth considering on our own what the prospects are in such aspects as output, costs, requirements, etc. Moreover, although it is something between a medium- and a high-technology industry, still, when looked at from the angle of technology dissemination, it is a technology spillover industry. On the world market, petroleum is an exceptional product, in that its supply and demand, and its price are more and more decided by noneconomic factors. Therefore, we have reservations about making this a key industry for attracting direct foreign investment. The machine-building industry is one that is very wide in scope. After the war, the trend in development of the world's machine-building industry in general was one of continual decline, in its position, while that of the various kinds of specialized machinery (electrical, electric appliances, communications and transportation machinery, precision machinery and instruments) was on the rise. Of the various kinds of specialized machinery, electrical and electric appliances were the most core section, in that it decided the technological level and developmental direction of the entire machine-building industry. China's machine-building industry is now comparable to that of the developed nations, but one major gap is that China has a smaller share of the specialized machine-building industry. Therefore, we realize that the electrical, chemical and textile industries should be the keys in China's current stage of attracting direct foreign investment. What follows is a brief analysis of these three industries.

#### 1. Electricity and chemicals as high-technology industries.

According to the preceding analysis, multinational corporations in high-technology industries tend to transfer more advanced technology to their subsidiaries and do it sooner. Moreover, within and between those industries there is a higher technology spillover effect. For example, in the chemical industry, 44.5 percent of the technology created in

industrial chemistry is applied in other industries; in the electrical industry, more than 90 percent of the technology created in the computer sector is applied in other industries.<sup>12</sup>

The chemical industry is sufficiently developed to furnish abundant raw materials to other industries, e.g., synthetic fibers (this can also be considered the textile industry) as materials for the textile industry, and synthetic rubber as material for such as the automobile industry. Plastic products are put to use on an even wider scale, being involved in nearly every other industry. Man-made, synthetic materials are gradually supplanting natural materials. In 1980, synthetic fibers accounted for one-half of all sales of fibers world-wide, synthetic rubber production was 2.1 times that of natural rubber, while sales of plastics in the 1960's had already exceeded sales of nonferrous metals.<sup>13</sup> The U.S. plastics industry association claims that industrial plastics are making headway in replacing metal materials in most applications, and plastics' momentum in replacing steel is manifested in such industries as computers, electronic equipment and transportation. The electronics industry is at the center of modern industries: its development can function as a production tool which increases the efficacy of other industries, while it is also recognized as becoming one of the core industries in the new technological revolution.

At the same time, China possesses an abundant raw material for the chemical industry—petroleum. In the chemical industry, petroleum chemistry is the major part. Since the worldwide transition from a coal era to a petroleum era, the mutual infiltration of the chemical and petroleum industries has mutually advanced the two industries' common development.

As related above, no matter whether we are talking about a medium-, high-, or low-level industry, the technological levels of its internal branch departments or stage of production are by no means identical. In the chemical industry, the level of technology of pharmaceuticals, industrial chemicals and consumer chemical products are fairly high, while that of agricultural chemicals and other chemical products is comparatively low, with the latter's technological level being only about half that of the chemical industry as a whole. In the electronics industry, the technological level of computers, electronic components and communications equipment is relatively high, while that of consumer electronic products is only one-seventh to one-eighth of the former.<sup>14</sup> Therefore, in the process of our attracting direct foreign investment to these sectors, we can first extract from these the low technology products or those at the starting point of production; then, use these industries to draw in the superiority of new technological capabilities in order to enter the world markets as soon as possible. Afterwards, we can again gradually pass it on to other high-technology products or stages of production.

#### 2. The textile industry as an earner of foreign exchange.

The textile industry is a typical example of a low technology industry, but it is also China's principal sector in

the present phase of earning foreign exchange. In recent years, China's exports of textile products have been increasing rapidly, an increase founded primarily on cheap labor and low prices. For example, Chinese fibers now earn foreign exchange of \$5,000 per ton, while those from Taiwan and South Korea earn in excess of \$7,000 per ton. Taking the long view, a low level of technology can not only affect the level of foreign exchange exported fiber products can bring in, it can also affect the quantity and rate at which those products are exported. The correspondingly low technological level of China's textile industry reflects the export commodity structure. In the first place, the products are processed at a low level: raw materials and semi-manufactured products constitute a high proportion of these while clothing and other finished products constitute a low proportion. In the second place, a low proportion of the products are made using chemically produced fibers as material, with a high proportion using materials from natural fibers. Of China's textile imported products in 1986, only 20 percent of the finished products were made from chemically produced fibers (including products made of blended fabrics). In comparison, the proportion of these exported from China's Taiwan Province in the same year was 81 percent.<sup>15</sup> Looking at the production of the entire textile industry, although China's 1986 output was more than one million tons, the proportion of this from chemically-produced fibers was still much lower than the worldwide average. China's proportion in this area was 24 percent, while the worldwide proportion was 45 percent.<sup>16</sup> The postwar developmental model for the textile industry worldwide was a shift from processing natural fibers to processing man-made fibers. Experts forecast that as far as can be seen, this process of man-made fibers supplanting natural fibers will continue in the future. Therefore, as textiles are China's principal foreign exchange-earning export, its competitiveness on the international market must be raised, which requires a change in the export commodity structure we have now, i.e., enhance the product manufacturing process and the proportion of materials made from chemical fibers.

In the postwar era, the chemical fiber industry has become the most vibrant sector of the age-old textile industry, chiefly due to its receiving so much new technology from the chemical industry. It lies at the intersection of the textile and chemical industries, so it not only has the highest level of technology of all sectors in the textile industry, it is also considered a high-technology sector according to the standards for differentiating industrial technology. This way, in the process of our bringing foreign direct investment into the textile industry, it can be linked with foreign investment in the chemical industry, focusing on the chemical fiber industry. At the same time, China's low wage scale superiority can bring suitable amounts of foreign exchange into such backward industries as spinning, weaving, dyeing and clothes-making, which will strengthen our capability to comprehensively process

textile products and directly further the textile industries' earning of foreign exchange through exports.

We realize that among the above three key industries for bringing in foreign direct investment, there is a mutually advanced and coordinated mechanism. The chemical industry can supply materials to the textile industry and even the future electronics industry; the electronics industry can supply advanced production instruments to the textile and chemical industries. The utilization of foreign direct investment can on the one hand be of immediate direct benefit to the improvement of textile products, and on the other can attract and disseminate advanced technology to the chemical and electronics industries, pushing their products into the world market sooner, and thereby gradually change the situation in which low technology products dominate China's export commodity structure. At the same time, these three industries will also become the leaders in forming China's economic development.

As stated at the outset, this paper looks only from a standpoint of technological level in analyzing the factors and mechanisms which influence our attracting foreign direct investment, and suggests the possible key sectors we might adopt. We did not conduct our examination at the national or at the enterprise level as factors, for in reality these factors are interconnected while brought into joint maximum use. Therefore, to achieve our goals in attracting direct foreign investment, we must choose these sectors rationally, attract a selection pattern as well as choose investment sources on a basis of nation and enterprise, etc. How these factors are interrelated, and how they affect our goals in obtaining direct foreign investment must both await further study.

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### Investment Environment Improves High-Tech Zone

OW2006121990 Beijing XINHUA in English  
1133 GMT 20 Jun 90

[Text] Beijing, June 20 (XINHUA)—The new technology development zone in the northwest suburbs of China's capital has been highly praised by foreign investors for its improved investment environment.

The preferential policies for investors, the high working efficiency of the authorities concerned there and the market opportunities in the area have all been praised by visitors.

Wang Peize, general manager of the Four Dimension Package Machinery Co. Ltd, said that his company only took 10 months before it was put into formal operation thanks to the efficiency of the authorities concerned.

He said that the preferential policies implemented in the development area, including three years' exemption from taxes and another three years of reduced taxes, were most attractive.

According to officials in the development zone, the zone enjoys many advantages including concentrated scientific research and information centers. There are more than 80,000 researchers from 138 research institutes in the area.

At present, there are 894 high-tech enterprises offering about 2,000 new-technology products in the area.

### Strategy for Introducing Technology Proposed

90CE0028A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 2, 11 Feb 90  
pp 21-24

[By Yang Aiqun (2799 1947 5028), Institute of International Economics, Ministry of Foreign Economic Relations and Trade]

[Excerpt] [Passage omitted] To confront the new environment in international technology trade, review the past, look ahead to the future, and integrate the national situation, China should adopt the following strategic countermeasures for the development of technology trade until the end of the century.

1. *Establishing a developmental strategy for a state based on science and technology.* In the world of today, a state based on science and technology has universal significance worldwide. Given the swift development of science and technology during the present era and its demonstrated increasingly high importance to the world economy, the force of science and technology has become the key factor in defining the power of a state. Proceeding precisely from this point of view, many countries of the world consider a state based on science and technology as their central developmental strategy and consider the development of science and technology as the key means of effecting modernization. People more and more are agreeing with the prediction made in the field of international economic theory that those countries which lead in science and technology are the countries which will be the world economic giants in the 21st century. For example, during the eighties, the United States constantly increased allocation of funds for scientific and technological research and development. In 1983, a total of \$265 billion was invested in scientific and technological research and development worldwide. The U.S. portion was 33 percent. It is estimated that in 1988 U.S. investment in scientific and technological research and development will have been \$131.5 billion, 49 percent allocated by the government and 47 percent by industry. Japan's 1986 investment in scientific research was \$62 billion, 3-fold what it was 10 years before. This was 2.8 percent of its GNP, exceeding the United States' 2.72 percent. Nor was West Germany willing to lag behind. In 1988, it invested 58.7 billion West German marks in scientific research, 2.8 percent of its GNP. With the developed countries paying such a high degree of attention to developing science and technology, how can we possibly treat it lightly? From now on, we not only have to be more conscious of paying

attention to science and technology, what is even more important, we have to give prominence to investing in it. By specifically reformulating how we deal with our developmental strategy for technology trade we will, under this grand developmental strategy for a state based on science and technology, be able to unify the two organically.

2. *Establishing guiding principles for introducing technological development and technological progress.* The developmental experience of many countries has shown that the introduction of foreign advanced technology is a shortcut to promoting domestic technological progress. However, their capacity to develop on their own is strengthened through the introduction of technology, and technological progress is rapidly promoted by the assimilation, absorption and nationalization of the introduced technology. For these reasons, we must from now on overcome the shortsighted view of introducing technology only for utilization and genuinely establish guiding principles for technological development and technological progress, while conscientiously doing a good job of assimilating, absorbing, and nationalizing the introduced technology.

3. *Focusing on the optimization of industrial structure, determining the strategic targets for introducing technology.* As a key production element, foreign technology will produce differing effects on industrial structure, depending on where it is invested. Technology invested in the proper place can bring about the proper development of industrial structure. Conversely, it can lead to lopsided development. To effectively optimize industrial structure, the strategic targets for the introduction of technology into China during the next period are: the introduction of appropriate technology to give new blood to China's existing older enterprises by effectively carrying out their technical transformation; and the introduction of high technology to promote development of a high technology industry and ultimately realizing the finest structural set-up for key domestic and foreign production elements and their best utilization. On the one hand, the introduction of appropriate technology to transform the older domestic enterprises is an inexpensive approach that produces large benefits. If we can introduce appropriate foreign technology to carry out the technical transformation of a large group of promising key enterprises, then from a macroeconomic point of view, this would advance the rational readjustment of industrial structure and result in good macrotechnical and macroeconomic benefits. From a microeconomic point of view, it would advance the technological progress of the enterprises and thoroughly change their backward aspect, which because of outmoded technology, has led to low efficiency, inferior quality, and outmoded products. In introducing technology to transform the older domestic enterprises, we should make use of more medium- and small-sized single-unit technology, which is more practical and cheaper. Specifically, the key point here is that we can introduce technology which can economize on energy and raw materials and reduce

production costs, which can greatly enhance production efficiency, which can improve product mix, promote the upgrading and updating of products, enhance the properties and quality of products, and promote and expand exports, and which can greatly replace imports. On the other hand, when we make a major effort to introduce appropriate technology to transform older enterprises, we should still allot a certain portion of our investment for the introduction of advanced technology. International experience has shown that a successful developmental strategy for introducing technology should include the initial stage, the higher stage, and the advanced stage. If our emphasis on introducing complete sets of technical equipment and production lines for the past 10 years was the initial stage, then, the introduction, to an equivalent extent, of technology for the next 10 years could well be our entry into the higher stage. Gradually introducing more of certain advanced technology is needed to make the shift to this strategic developmental stage.

4. *Strengthening cooperation with different countries, expanding sources of technology.* At present, China's main sources of imported technology are the United States, Japan, and West Germany. From 1973 until the third quarter of 1988, the breakdown for the sources of imported technology for different countries was as follows: 672 items were introduced from the United States, using \$3.16 billion in foreign exchange, accounting for 20.3 percent of the total number of items imported into China, and for 13.9 percent of the foreign exchange used; 853 items were introduced from Japan, using \$8.07 billion in foreign exchange, accounting for 25.8 percent of the total number of items imported, and for 35.5 percent of the foreign exchange used; and 609 items were introduced from West Germany, using \$3.98 billion in foreign exchange, accounting for 18.4 percent of the total number of items imported, and for 17.5 percent of the foreign exchange used. We can see from these figures that in the past the biggest source of China's imported technology has been first Japan, then West Germany, followed by the United States. To avoid any adverse effects on the sources of technology imports to China by future changes in the international situation, we should expand our cooperation with different countries even more, thereby diversifying our sources of technology. For this purpose, we must first continue to consolidate our technology trade relations with the United States, Japan, and West Germany. Relations with the three should be impartial and cooperation developed on the basis of each country's special features. We should bring diplomatic and economic pressure to bear on the United States, urging them to relax their unfair restrictions on technology exports to China. From the United States, we should mainly consider introducing more advanced technology, from Japan more appropriate technology, and from West Germany both categories of technology. Second, we must strengthen relations with Asia-Pacific countries. When the U.S.-Canadian market and the European Common Market are formed, China must similarly seek cooperation with Japan and Southeast

Asian countries to jointly establish an East Asian economic circle. Third, we must face up to the rapid development of the transnational companies of the developed countries, analyze and study their management tactics, and formulate policies to cooperate with them.

5. *Further strengthening the system of organization for managing the introduction of technology.* The introduction of technology is a highly complex task that touches upon such various aspects as politics, economics, scientific research, production, law, economic trade, commodity inspections, and customs. At present, there are certain shortcomings in China's system of organization for managing the economy that impede the introduction of technology. Several ministries and commissions of the State Council, which have similar authority and which are set up on equal footing, have functions bearing on the introduction of technology. However, their responsibilities are not clearly defined. The managerial links between the higher and lower levels and between different departments and regions are not close, and they have many levels, numerous procedures, and low efficiency. This has resulted, to a certain extent, in the departments that import technology being out of step with the departments using it, the departments using it being out of step with the departments studying it, and the departments importing it being out of step with the departments studying it. This system of organization makes it difficult to realize the strategic targets for the introduction of technology and makes it difficult to thoroughly implement the policies and plans for the technology industry in a systematic manner throughout the country. If we are to fully benefit from the introduction of technology, it is imperative that we reform the presently existing management system of organization and establish an appropriate unified management organization that has the authority to effectively coordinate relations between these departments. This organization would be the responsibility of a leading comrade of the State Council and formed from the State Planning Commission, the State Science and Technology Commission, and the Ministry of Foreign Economic Relations and Trade. It would set up offices that would be responsible for routine work. This management organization could, by the following means, exercise macroeconomic control over the introduction of technology throughout the country. (1) Study and formulate national principles and policies for introduction of technology, stipulate in explicit terms the procedures for introducing technology, and gradually hand over the investment risk and investment income from the introduction of technology to the enterprises, enterprise banks, and departments offering counsel and judgement in order to eliminate the short-term actions of the localities, departments, and industries with respect to technology import investments, to bolster unit responsibility for profit and loss, and to strengthen unit awareness of its overall responsibility for investments. (2) Study and formulate, long-, middle-, and short-term plans for introduction of technology and channel them into national economic planning. At the

same time, formulate specific rules and regulations for their implementation and make every effort to successfully carry out what has been planned. (3) Bring under unified control the examination and approval of activities bearing on large-scale projects of overall interest and charge pertinent ministries, commissions, and industries to strengthen macroeconomic guidance and control over below-norm projects in order to avoid speaking with several voices and duplicating imports. (4) Break down the barriers between different departments and different regions and unify the various departments which import, use, and study technology in order to implement the work of importation, assimilation, absorption, and nationalization for key projects. (5) Based on the actual requirements for a certain period, draw up a list of prohibited, restricted, and high taxed imports as well as for those to be encouraged. The various regions and departments, should, based on actual need, set up similar management organizations to help the development work of the central government, to exercise control at different levels, to ensure that everyone is moving in the same direction, to ensure a suitable division of labor, and to ensure efficient operations.

## ECONOMIC ZONES

### Shenzhen Tariff Cut Benefits Cited

HK1206033290 Beijing CHINA DAILY (BUSINESS WEEKLY) in English 11 Jun 90 p 4

[Text] Preferential treatment in tariffs fetched sizable profits for foreign-invested ventures in Shenzhen while most State-owned businesses there barely took advantage of the treatment.

Statistics showed that preferential treatment saved local foreign-invested ventures about \$190 million due to either reduction or exemption from customs duties last year, the Shenzhen Special Zone Daily reported.

State-owned businesses only availed themselves of the treatment to save some \$10 million in tariff charges.

The total export volume there hit \$2.1 billion. However, according to Shenzhen Administration for Import and Export Commodity Inspection, 95 percent of the 180,000 certificates of origin the administration signed for preferential treatment last year were at the request of local foreign-invested ventures.

The State-owned manufacturers have to depend on State trade businesses for exporting their products.

The manufacturers sell their products to the trade businesses for fixed prices. The trade businesses will undertake all the business talks with foreign buyers. It makes no difference to the manufacturers' profits whether the products receive the benefits of the treatment or not.

China is given the general preferential treatment by 21 countries, including Japan, Canada and the European Community nations.

The paper noted that State-run enterprises had more or less ignored the treatment.

At least 90 percent of the products which local State-owned enterprises exported were entitled to the treatment but those enterprises failed to seek that treatment, the paper said.

Qualifications for the treatment have become part of the feasibility studies for foreign investors in the city.

Many watch, toy and clothing manufacturers moved from Hong Kong to Shenzhen a few years ago when many countries stopped extending the preferential treatment to Hong Kong.

A joint venture enterprise in Shenzhen exported large amounts of light industry products to the European Community market last year and gained a big profit as a result of the preferential treatment.

## 52 Foreign-Funded Enterprises Set Up in Hainan

OW1406142590 Beijing XINHUA in English  
1134 GMT 14 Jun 90

[Text] Beijing, June 14 (XINHUA)—From January to April this year the authorities in south China's Hainan Province, the country's biggest special economic zone, approved the setting up of 52 foreign-funded enterprises involving 85.98 million U.S. dollars.

Among these, 57 percent of the total funds came from foreign businessmen.

## LABOR

### Unemployment Insurance System Discussed

HK0706070190 Beijing ZHONGGUO QINGNIAN BAO  
in Chinese 5 May 90 p 3

[Report by Cheng Wen (2052 2429): "Unemployment Insurance: Reflections of Experts and Practical Workers—Roundup of First National Theoretical Symposium on Unemployment Insurance"]

[Text] There is no denying the fact that unemployment has become a problem in China's economic life demanding prompt solution. The first national theoretical symposium on unemployment insurance recently held in Zhuhai has also indicated such an attitude: We have set about studying and solving the issues of unemployment and unemployment insurance. Perhaps because it is the first time that such a symposium has been held, the question of unemployment insurance has generated so many different views. Here is a roundup of the reflections of experts and practical workers.

### I. The Cause of China's Unemployment Phenomenon and the Characteristics of China's Unemployment at the Present Stage

#### 1. The root cause of China's unemployment phenomenon at the present stage.

This is an old topic for discussion in the theoretical circles. The progress made at the current meeting is that most comrades realize that the unemployment phenomenon does not originate from a specific social system but is related to a very complicated socioeconomic background. Through analyses, the causes of China's unemployment phenomenon can be summed up as follows:

The first is socialized mass production and commodity economy. Many comrades hold that, with the deepening of the division of social labor, the production structure is bound to be constantly readjusted, and this readjustment will result in the lack of coordination in the distribution proportion of various production factors, thus bringing about an unemployment phenomenon. On the other hand, given the commodity economy, competition among enterprises will also lead to the realignment of production factors and the enhancement of capital's organic composition, thus turning some idle laborers into unemployed persons. The fact that laborers compete for jobs and the mutual choice between enterprises and laborers will also inevitably bring about unemployment.

The second is our country's specific socioeconomic conditions. First, taken as a whole, China supplies more labor than is needed and there is an imbalanced structure between supply and demand. For this reason, unemployment is unavoidable. Judging by China's economic development pattern, it is changing from an extensive to an intensive and efficiency type. This is bound to call for reduced labor costs and elimination of redundant personnel. The numerous reforms in our country over the past few years have reflected this point. As a result, a number of people will be ejected from in-service laborers and become unemployed.

#### 2. The basic characteristics of China's unemployment at the present stage.

First, the cause of unemployment is quite complicated and so is the composition of the unemployed. Most of the unemployed in the economically developed areas are those who have lost their jobs. The unemployment phenomenon emerges against the background of a high rate of labor flow. In the economically underdeveloped areas, however, the unemployed are mostly new laborers in cities and towns.

Second, some comrades hold that China's unemployment is characterized by its diversified forms. At present, there is not only open and hidden unemployment but also semi-employment of the intermediate state, such as the workers and staff members of enterprises which suspend or partially suspend production. So far, however, no scientific classification has been made about China's unemployment phenomenon.



Third, the unemployment time of laborers has lengthened and the unemployment rate tends to rise continuously.

Fourth, of the unemployment phenomena, the structural contradiction is very conspicuous. Not only is there a shortage of labor but large numbers of surplus laborers cannot find jobs. The coexistence of "workers selectively choosing jobs" and a "high unemployment rate" will probably be a long-standing phenomenon.

## **II. The Basic Meaning of China's Unemployment Insurance, as Well as the Status and Function of China's Unemployment Insurance System.**

### **1. The basic meaning of unemployment insurance.**

The first view is that unemployment insurance is a social security system which ensures economic help for workers and staff members during their loss of work through the establishment of funds and which enables them to find jobs through job training and recommendation.

The second view is that unemployment insurance refers to a social insurance system which is forcibly implemented through government legislation and which provides, through the establishment of funds by the society as a whole, material help to laborers who have temporarily lost sources of income as a result of unemployment.

The third view is that unemployment insurance is a social security system which the state institutes through legislation, which is organized and implemented by local governments, and which is not aimed at making profits. The object of this definition is to distinguish between unemployment insurance and commercial insurance and between the status and role of the state and those of local governments in the unemployment insurance system.

### **2. The nature and characteristics of unemployment insurance.**

A fairly consistent view is that unemployment insurance must have the following characteristics: mandatory, mutually supportive, socialized, and non-profitable.

The first view is that unemployment insurance is different from either social insurance or social relief. Like social insurance, unemployment insurance comes under the category of social security but its targets and role are different from those of social insurance. It has the nature of social relief but its targets are different from those of social relief.

The second view is that unemployment insurance is an important component part of the social insurance system. Therefore, while we should affirm that unemployment insurance has the basic attribute of social insurance, we should sum up the nature and characteristics of unemployment insurance by comparing it with insurance against industrial injury, old age pension, and illness. Viewed from this aspect, the most basic nature of

unemployment insurance is that its security target is those laborers having labor capabilities and it provides employment service.

The third view is to expound the characteristics of unemployment insurance from the angle of distribution, holding that unemployment insurance is the accumulation of laborers' labor and that, unlike social relief, it is an extension of distribution according to work.

## **III. The Problems In and the Reform Direction of China's Unemployment Insurance System.**

### **1. The problems in China's existing unemployment insurance system.**

At the symposium, comrades from the practical work departments gave a fairly comprehensive summary of the problems in China's existing unemployment insurance system. At present, the most fundamental problems are: the low socialization level and the low coverage of unemployment insurance, with only four kinds of people receiving the benefit; the small overall scope of the unemployment insurance fund, which affects its function of supporting each other; the low proportion of funds withdrawn, which is also an important reason preventing the scope of the targets of unemployment insurance from being expanded; and, lastly, the numerous defects in management structure, such as ill-defined duties incumbent on each person or post, failure to reflect the methods of mandatory payment, and lack of guarantee for funds. These issues are not only problems in China's unemployment insurance system itself but also problems in management work.

### **2. How to further improve China's unemployment insurance system.**

Some representatives hold that, being a component part of social insurance, China's unemployment insurance system should embody the principle of being an integrated whole and, under unified government planning, stress the basic objective of socialization. Judging by its nature, unemployment insurance should be strictly kept within the scope of social insurance; judging by its target, it is necessary for the government to make unified policies and regulations and, under this precondition, gradually expand the scope of unemployment insurance and improve the management structure.

Some representatives hold that our unemployment insurance system should follow the principle of overall consideration and proper arrangement, with each having a proper role to play. Unemployment insurance should be established by all quarters of the society and changed from unitary unemployment insurance to one with many principals and levels.

Proceeding from the angle of practice, other comrades propose the establishment of an unemployment insurance system according to different forms of ownership. Some others hold that this does not conform to the



unemployment system's principle of being an integrated whole and is not conducive to the flow of laborers.

## TRANSPORTATION

### Heilongjiang Reports Development of Railway Network

SK1606033090 Harbin HEILONGJIANG RIBAO  
in Chinese 13 May 90 p 2

[Summary] The network of densely distributed railways of our province, linking both foreign trade outlets and hinterland, is one of the most developed railway transportation networks of the country and has provided favorable conditions for our province to promote foreign economic relations and trade.

The mileage of railways in the province totaled more than 5,400 km. The railways of the Harbin Railway Bureau center on the four economic central cities of Harbin, Qiqihar, Mudanjiang, and Jiamusi, and spread to the areas surrounding them. Through the Harbin railway hub, materials, including those for import and export, are delivered to various localities of the country and foreign trade outlets. The Harbin railway hub is where the Changchun-Harbin, Harbin-Manzhouli, Harbin-Beian, Harbin-Suifenhe, and Lalin-Harbin lines converge. Through the Beijing-Harbin line, goods can be delivered to Beijing, Shanghai, Guangzhou, and Zhengzhou in the south and, through the Harbin-Dalian line, goods can be delivered to Dalian, a sea transportation passageway.

There are three railway outlets—Manzhouli, Suifenhe, and Erenhot—in the Sino-Soviet border area. The Manzhouli and Suifenhe railway outlets, which are under the administration of the Harbin Railway Bureau, have a history of more than 80 years, and are important passageways through which China develops economic relations and trade with the Soviet Union and East European countries. The distance between the Suifenhe Station and the (Grojekevo) Station of the Soviet Union is merely 20-odd km, and that between the (Grojekevo) Station and Vladivostok, whose transportation lines link up to many localities of the Soviet Union, is merely 200-odd km. Both Manzhouli and Suifenhe Stations have broad-gauge and standard-gauge transshipment yards. The transshipment capacity of the Manzhouli Station is 4.05 million tons, and that of the Suifenhe Station 900,000 tons.

Since the Sixth Five-year Plan period, the state has begun double tracking the Harbin-Manzhouli and Harbin-Suifenhe lines to greatly increase their capacity. The double-tracking of the 176-km section between Harbin and Lamadian of the Harbin-Manzhouli Railway was completed in 1986, and the double-tracking of the 375.6-km section between Fulaerji and Haiman is under way. Of the Harbin-Suifenhe Railway, the 351-km section from Harbin to Mudanjiang, which has a heavier transportation load, was completed and opened to traffic at

the end of 1988, and installation of automatic blocking equipment began this year to further increase its capacity.

Local railways of our province have also developed vary rapidly, and their total length has reached 397 km, ranking first in the country. The Beian-Heihe line, the longest local railway in the country, is expected to open to traffic in August this year. Imported goods can be delivered to all parts of the country through the Beian-Heihe local railway and the Harbin-Beian line, and exported goods can also be delivered to Heihe directly by railways. Also, goods imported through the trade outlet of Xunke can be delivered to the Sunwu Station via the Beian-Heihe railway, instead of the 112 km of highway transportation from Longzhen in the past, thus shortening the transportation line by 150 km. In this way, the Beian-Heihe railway will play a great role in developing the Xunke trade outlet.

### Highway Development in Heilongjiang

SK2006005990 Harbin HEILONGJIANG RIBAO  
in Chinese 20 May 90 p 2

[Summary] Heilongjiang Province now has more than 47,000 km of highways, ranking it sixth in the country, and 99.2 percent of the towns and townships throughout the province are accessible through highways. Twenty-three of the highways are trunk lines, totaling 8,500 km in length. Among them, seven are national-level highways, totaling 3,400 km. The Suifenhe-Manzhouli national highway, of which 967 km are in Heilongjiang Province, starts in Suifenhe, a trade outlet in the eastern part of the province, passes through Mudanjiang City, an economic, cultural, and transportation center in the eastern part of the province, intersects the Fangzheng-Yushu provincial highway, and enters the capital city of Harbin, intersecting the Harbin-Beijing, Harbin-Tongjiang, Dalian-Heihe, and Harbin-Yichun national highways, and the Harbin-Luobei provincial highway. The 630-km Harbin-Tongjiang highway links with the Tongjiang-Fuyuan Highway, a border trunk line, and passes through the Sanjiang Plain, an agricultural development base. It intersects the Hegang-Dalian national highway, links with the Fulin-Raohe, Fangzheng-Hutou, and Fangzheng-Tongyu provincial highways, and passes through the trade outlet of Fujin and the transportation center of Jiamusi City. In the province's border line of more than 3,000 km, there are six trunk highways connecting with Mohe, Huma, Heihe, Xunke, Jiayin, Luobei, Fujin, Tongjiang, Fuyuan, Raohe, Hulin, Mishan, Jixi, Suifenhe, and Dongning, and extending to Yanji City in Jilin Province.

### Airline Accepted as Organization Member

OW0106052190 Beijing XINHUA in English  
0110 GMT 1 Jun 90

[Text] Shanghai, June 1 (XINHUA)—China's Eastern Airlines has been officially accepted as a member of

SITA [International Society of Aeronautical Telecommunications], airlines worldwide telecommunications and information services.

Eastern is the country's second airline to join the organization.

SITA, established in 1949, is a nongovernmental organization which provides free international telecommunications services for airlines all over the world.

The organization boasts 333 member airlines from around the world.

### PRC MEDIA ON FOREIGN ECONOMIES

**Analysis of Unsuccessful Soviet Economic Reform**  
*90CE0079A Beijing SHIJIE JINGJI [WORLD ECONOMY] in Chinese No 2, 10 Feb 90 pp 61-66, 60*

[Article by Zhang Kangqin (1728 1660 3830) of Beijing University's School of Economics: "A Tentative Analysis of Why the Soviet Economic Reform Has Been Unsuccessful"]

[Text] It has been four years since the 27th CPSU Congress first proclaimed a radical restructuring of the economic system in February 1986. In January 1988, a new management mechanism was introduced, and in late 1988, a political reform program was implemented. Originally, the intention had been to use political reform to promote the restructuring of the economic system and turn the economic situation around quickly. But in practice, the two programs failed to promote each other as was the aim; instead, they led to all-out sociopolitical crises. As soon as political reform began at the central level, and before it even reached the localities, sociopolitical turmoil erupted: Six non-Russian republics demanded their independence; nationwide labor unrests broke out; factory and mine workers went on strike; the supreme leadership was divided over what should be done. The political upheaval made the economic situation even more grim. The original goals were not achieved. Precisely speaking, the new problems are just old, hidden problems brought into the open; they are chronic problems made more acute today. Mainly, the problems are reflected in the following three areas:

#### **One, consumer goods are even more scarce than before.**

The shortage of consumer goods has always been the toughest problem in the Soviet economy. In recent years, especially since 1989, consumer goods have been even more scarce. Of the 1,200 categories of goods that make up the "consumer basket," 1,000 are in short supply. The most basic everyday necessities, such as sugar, salt, matches, soap, detergent, and toilet paper, are often not available. The total output value of consumer goods only comes to one-half of the people's income.

**Two, instead of [hidden] inflation, prices are clearly higher.**

Consumer goods have always been scarce in the Soviet Union, but because of the very tight price control, the state government subsidies and other measures, inflation has not been reflected directly in higher prices but indirectly in such economic phenomena as long lines, black market, high prices in the country markets, and in forced savings.

In fact, there is serious inflation in the Soviet Union. They have admitted that in the previous three 5-Year Plan periods, the money supply was 2 to 2.9 times the amount normally needed.<sup>1</sup> The situation is even worse today.

In the wake of reform, enterprises have been given more power and the state has let enterprises set the prices of some consumer goods. Inflation that was hidden before now comes out into the open and is reflected in higher prices. Since most prices have not been decontrolled—the prices of 80 percent of the capital goods and 65 percent of the consumer goods are still set by the state—the magnitude of price increase has been reasonable so far. For example, in 1988, the state's price index only went up 2.3 percent, although the price of certain types of consumer goods rose more than others: meat, four percent; refrigerators, seven percent; small cars and washing machines, eight percent; shoes, eight percent; clothing and piece goods, 10 percent.<sup>2</sup> These indices do not include prices in the country markets. If included, they certainly would be higher. Some Soviet economists have admitted to eight to nine percent inflation in 1988, rising to 10 percent in the first six months of 1989.<sup>3</sup>

#### **Three, the budget deficit has become a serious problem.**

The Soviet Union has been operating in the red, although no figures have ever been made public. Under the general policy of Glasnost, this closely-guarded secret is finally exposed. The Soviet Union ran up 20 billion rubles in deficits in 1985, 183 billion rubles in 1986-1988, averaging 61 billion a year, and in 1989, the deficit increased to 100 billion rubles, 11 percent of the GNP, and they have announced recently that the deficit may reach 120 billion rubles; their national debt is in excess of 350 billion rubles. The Soviet Union's budget deficit is very serious; it is a problem far more serious than in most well-developed capitalist countries. For example, when the U.S. budget deficit peaked in 1986, it still amounted to only 3.5 percent of the GNP.

The grimness of the Soviet Union's economic situation is certainly unexpected. The reasons behind this situation are very complicated. Besides the exogenous factors, such as bad weather that affected agricultural output, the huge loss caused by the disastrous earthquake in Armenia, and plummeting petroleum prices in the world market which reduced the Soviet foreign exchange

income by more than one-half, there are endogenous factors, the most serious of which are:

**One, under a guiding ideology anxious for quick success, they focused on speed and quality and tried to improve production and the living standard at the same time. As a result, haste only made waste, and the intended goals were not met.**

In an effort to put an end to the economic stagnation and to refocus attention on the quality of life, immediately after he took office, Gorbachev put forward the strategy of accelerating the country's socioeconomic development at the CPSU Plenary Session in April 1985. This is understandable. But the Soviet leader did not realize the seriousness of the economic problems he had inherited nor how formidable a task it was to achieve the strategic goals when he set unattainable goals and made hasty promises. For example, he wanted a higher rate of economic growth in the Twelfth 5-Year Plan period than under the previous 5-year Plan and expected the economic scope to double that of 1985's by the year 2000. He promised to improve food supply within two years and raise the Soviet machine-building industry to world standards by 1990.

Yet, when they began the Twelfth 5-year Plan, the Soviet economy was facing the following situation: The agricultural and the industrial sectors were seriously out of balance; heavy industry outweighed light industry by far, and agriculture remained very backward. The supply of consumer goods was already very tight, and there was a wide gap between money and material wealth. The 1985 money supply was 2.1 times more than that of 1971, but the production of consumer goods only doubled in that period. Meanwhile, the Soviet Union was utilizing backward technologies and was in urgent need to equip and upgrade various economic sectors with advanced technologies. Therefore, they had to vigorously develop their machine-building industry. But they had never had advanced machine-building technologies to begin with; only 40 percent of their products met, and the other 60 percent were far below, world standards. It would take more than one 5-year plan to turn the situation around.

Under such an industrial structure, and since the traditional economic system basically was intact and economic reform was still at the experimental phase, there were many obstacles. It is almost impossible to improve production and the quality of life and focus on speed and quality at the same time, and their experience in the last four years amply proved this point.

**Two, many new problems have emerged as the new management mechanism is being installed, and the fault lies mainly with the impatient pace of reform and the absence of a complete set of overall measures.**

First, the Law on [State] Enterprise took effect in some enterprises on 1 January 1988, but the installation of the new management mechanism was not accompanied by other reform measures.

As a reform idea, it makes sense to start with enterprises, promulgate an enterprise law, and formulate other reform measures to complement that law later. But in practice, it is absurd to formulate just an enterprise law and put off other measures; they must be implemented at the same time, or at least the important measures should be introduced at the same time. This is because reform is a systematic project; if some links are introduced first, to be followed by others later, the overall effects may be compromised. If it is not possible to implement everything at the same time, at least the right conditions should be created to accommodate as much change as possible, or simply put off the whole idea for the time being. Otherwise, it will produce very little substantive results. The Soviet authorities were too anxious for quick results, and before they had drawn up the main, overall reform measures, they rushed to promote a new enterprise management mechanism; consequently, they have had little success. Obviously, enterprises must be economically accountable and able to gather funds on their own first. If the existing seriously-distorted price mechanism and overly-centralized material allocation system and financial credit system are not reformed at the same time, and if a norm that reflects the state's, the collectives', and the individuals' interests cannot be determined, it will be impossible for the new management mechanism to function properly. The Soviet Union later realized this fact. At the 19th All-union Conference of the CPSU in June 1988, a decision was made to restructure the material allocation system and the price system sooner than planned. But because the supply and demand of consumer goods were seriously out of balance and the Soviet people could tolerate little price increase, the authorities were forced to put off retail sales price reform for three years, but reform of wholesale price of capital goods and agricultural purchase price was moved up to 1990. But if wholesale and purchase prices are changed but not retail prices, prices will still be distorted and more government subsidies will be needed, which are not the goals of price reform. In the summer of 1989, because of the grim political and economic situations, the Soviet Union made the new decision to postpone the restructuring of the price system until 1991-1995. But if prices are not changed, it will be very difficult for enterprises to do business as commodity producers.

Second, the wage fund source is still not linked to the final profit, and wages are increasing faster than labor productivity, which exacerbates the supply-demand conflict and makes inflation worse.

In 1988, wages of workers in the production sector rose by seven percent but productivity only increased 5.1 percent.<sup>4</sup> In the first six months of 1989, these two indices were 10 percent and 2.7 percent, respectively. Civilian income increased by 40 billion rubles in 1988 and by more than 200 billion rubles in the first six months of 1989.<sup>5</sup> Income is increasing so fast that it is impossible for productions to catch up, and this inevitably aggravates inflation.

The Soviets believe that this situation is due largely to the wrong choice of profit index which is linked to the wage fund source. Most enterprises choose to determine

income by one business accounting method: Determine the wage fund source according to a norm. For enterprises, this norm is determined by an output index. Determining the norm of wage fund source by an index made up of real goods may work if an enterprise has only one product, for example, wage can be made up of a ton of coal, a ton of oil, and a unit of electricity. But it is unworkable if an enterprise produces a complicated mix of goods. Moreover, an index made up of real goods does not tell whether an enterprise is making or losing money. As a result, most enterprises prefer a value index, but the norm of net output value is very complicated to calculate and is not popular. So, the only choice is an index of total output value. But this index tends to encourage enterprises to be wasteful in order to jack up the total output value. Although such index has been thoroughly refuted by theoreticians, it is still widely used in practice. This poor choice of index inflates the wage fund source. The Soviets have decided to adjust the workers' compensation fund quarterly according to the increase in labor productivity rate, beginning in 1990. But this is another administrative measure that can be changed. Quarterly adjustments—it is easier said than done.

Furthermore, enterprises have no internal restraining mechanism. When enterprises install the new management mechanism, they only worry about stimulating allocation but not production.

At present, some elements in enterprises' new management mechanism, primarily the internal motive mechanisms, are beginning to make their effects felt. For example, enterprises now have more power to make decisions, and the systems of business contracts, profit, business accounting of revenue and allocation are in place. But the pressure mechanisms which encourage enterprise to develop production, such as competition, tax policy, and a credit mechanism, are still absent. So long as there is a shortage of commodities, and so long as there is no outside competitive pressure, and if rigid budget constraints and a stringent tax system are absent, enterprises will have a monopoly and can use their power to get a higher output value and expand wage fund source. They can change the product-mix, cut back on the production of cheap consumer goods, and increase production of expensive products in order to reap more profit. Once, Moscow ran out of inexpensive soap, but there was a large stock of expensive soap, which proves the point. Increasing the proportion of expensive goods is a practice particularly noticeable in the light and textile industries where enterprises have more freedom to set prices. Luxury goods made up 38.5 percent of all light and textile industrial productions in 1988, up from 26 percent in 1985.<sup>6</sup> Under the circumstances, enterprises will not bother with resource conservation, cost reduction, technological improvement, or development of new products to satisfy society's needs.

If there are only motive mechanisms but no restraining mechanisms, enterprise will always emphasize income allocation and ignore production development. In promoting the new management mechanism, the Soviet

Union's total output has decreased. In 1989, some 20 percent of the enterprises reduced their production plan by 15 to 30 percent compared to 1988. For example, enterprises' nonfood commodity production for 1989 was 13 billion rubles below the state's target.

**Three, errors in some specific policies are also one of the causes of the tense economic situation.**

In the last four and one-half years, the Soviet Union has drastically revised its social, political, and economic policies, but some errors have been made in the process. With respect to the economic policies, loopholes can be found in the following areas:

1. The prohibition movement has gone too far. Excess drinking is widespread and is a very serious social problem in the Soviet Union. Between 1970 and 1980, three-quarters of the criminal cases and nearly one-half of the divorces were drinking-related. Nationwide, traffic accidents caused by drunken-driving cost society as much as \$40 billion a year. Hard-drinking parents have caused one-sixth of the babies to be born severely retarded. Nationwide, 20-30 million are abusers of alcohol and 6 million are alcoholics. Faced with this situation, the Soviet Union initiated a mammoth prohibition movement. After more than four years, the movement is producing some positive results. The negative phenomena described above are gone, but new problems have appeared, the most serious of which is state revenues, which fell by \$78.4 billion between 1986 and 1988. Bootlegging is rampant; rationing has been imposed because of soaring sugar sales. Since 1989, the control over liquor sales has been eased.

2. The state's quality control method has been a failure. The poor quality of Soviet products has become a serious problem. The authorities attempted to improve quality by instituting state inspection of products before accepting delivery. This practice was inaugurated in 1,500 production enterprises in 28 sectors in 1987. At that time, 4,500 specialized technicians nationwide were chosen to represent the state to go to the factories and inspect the goods. In practice, there were many problems: Some enterprises recruited the inspectors and were in cahoots to cheat the state and harm the consumers; some enterprises only showed the better products to the inspectors and hid the rest; after an inspection, some enterprises would continue to ignore the technical and work specifications; the quality of some enterprises' products was poor because the parts and raw materials supplied by others were bad. The poor quality products could not be sold and were sent back to the factories for more work, which increased the cost, and some were simply discarded. Enterprises could not fulfill their production and marketing plans; some even defaulted on wages, upsetting the workers. The authorities wanted to conduct state inspections nationwide but could not recruit enough qualified technicians to do the work. State inspection nevertheless is an administrative measure. It is futile to rely on administrative supervision alone to solve the quality problem. A complete overhaul

is necessary. A competitive mechanism must be introduced to prompt enterprises to improve quality on their own. After a year of state quality inspection, because of all sorts of problems, the practice was not expanded and has not been heard from since.

3. Their solutions to the agricultural problems have missed the mark. When Gorbachev took office, in an effort to solve the agricultural problems, he created a special integrated agriculture and industry commission. He believed that strengthening the relationship between agricultural production and the policy of putting agriculture before industry and forming an organization which would provide comprehensive leadership in integrating agricultural and industrial productions were the solutions to the food and agricultural raw material supply problems. But after more than three years, practice proved that centralized management had smothered agricultural production and had not made other agricultural production-related sectors any better. The All Soviet Integrated Agriculture and Industry Commission had a staff of 4,500 at the central level and 200,000 experts and 2 million officials at various local levels. Their bureaucratic work-style kept them from achieving the goal of promoting agricultural production. At a special CPSU Central Committee meeting to discuss the agricultural problems in March 1989, a decision was made to shift the focus to readjusting the production relationships and changing the social conditions as the solutions. It was pointed out that development of leasing and contracting were among the most important ways to reform the socialist ownership system. At the same time, a decision was made to abolish the State Integrated Agriculture and Industry Commission and to replace it with a State Food and Procurement Commission. Local agriculture and industry commissions have been converted to joint agriculture and industry companies which are some sort of business accounting units.

4. The policy of reducing the import of consumer goods has been a mistake. Tumbling petroleum prices in the world market since the 1980's cost the Soviet Union \$59.2 billion in reduced revenues between 1985 and 1988. As a result, the Soviets have cut back on the importation of consumer goods. Consequently, there has been no increase in domestic market supply and state revenues have dropped, because imported consumer goods command a high price in the domestic market, which takes some currency out of circulation and increases state revenues. Less import reduced the state's 1987 revenue by 9 billion rubles compared to 1985.

**Four, insurmountable obstacles bend the reform measures.**

An administrative command-type management system has been in effect in the Soviet Union for more than 50 years, and it is very difficult to change. Mid- to upper-management personnel who are used to issuing orders want to maintain the status quo. For example, the replacement of mandatory planning by state procurements resulted in some departments ordering goods in

the name of the state in amounts far greater than enterprises' annual production capacity. Another example is that the streamlining of organization and elimination of some middle management links have prompted some departments to set up scientific production joint companies with their own independent management organs to serve the same functions as the industrial production joint companies or general management bureaus which have been eliminated. Cadres in the primary level enterprises are used to "getting orders from above" and do not know how to make decisions or buy and sell anything on their own, which are made necessary by the reform. They would rather have their superiors tell them what to do. On the whole, the ordinary workers want reform, but many are still taking a wait-and-see attitude. Some are used to "eating out of the big pot" and have lazy habits. Reform wants to change them, but they do not want to change and therefore are not supportive of reform. Some thought they could make some money out of reform and had high hopes, but they are not getting anything and are therefore disappointed and even upset.

**Five, the Soviet leadership is engaging in an internal struggle, which has prevented urgent economic measures from being adopted.**

Within the ranks of the Soviet leadership, there have long been disagreements over the scope, the extent, and the direction of reform. Since Gorbachev became secretary general, the ruling clique has been reshuffled seven times. In the politburo, Gorbachev and Shevardnadze are the only two committee members left from the Brezhnev era. On the surface, Gorbachev's position is secured, but whenever he is not in Moscow, one can always hear dissenting voices. Moreover, reform has not been a notable success; ethnic rebellion and workers' strikes also helped bring the internal struggle into the open. In August 1989, when Gorbachev was on vacation, a statement was issued in the name of the Central Committee on 25 August warning the three Baltic republics about their nationalist movements. It said, "Danger of civil war and widespread street fighting looms in the three Baltic republics." This statement aroused a sense of crisis among the people and further destabilize the situations in the three republics. When Gorbachev returned on 9 September, he accused those responsible of "fomenting an atmosphere of fear, hopelessness, and distrust." No matter what the ulterior motives were, or whether the intention was to create a tense atmosphere, or whether there was real concern for the fate of reform, to discuss the possibilities of a coup or civil war openly in the newspaper is nevertheless a sign of serious contention within the Soviet leadership and of political instability. Moreover, because the leadership is hopelessly divided over the promulgation of specific economic policies, it has prevented urgent economic measures from being adopted and has kept some problems from being solved in a timely fashion.

How can they extricate themselves from the predicament?

It seems, if the Soviet Union wants to avoid a political-economic crisis, the general policy should be to continue to deepen the reform process rather than to retreat. They believe that "except by changing, except for a thorough economic and political reform, there is no other way out. To abandon the general policy of reform is to give up on the future."<sup>7</sup> No doubt, the Soviet Union's highly centralized, administrative command-type economic and political systems are a spent force. Without reform, there will be very little economic development; technologically, they will be left behind by the well-developed countries. Today, some problems have emerged during reform, but they can only be solved in the process of thorough reform. Of course, the reform steps may need adjustment, or they need to slow down. From the speeches delivered by Soviet leaders and from newspaper reports, the Soviet authorities intend to limit economic growth, consolidate public finance, and stabilize the consumer market as ways to deal with the economic crisis. They want to strengthen party leadership and seek unity in thinking, and are prepared to convene the 28th Party Congress at an earlier time than scheduled and will make every effort to solve the ethnic problems to deal with the sociopolitical crisis. Below, we will discuss several specific measures the Soviets will take in tackling the economic problems:

**One, adjust the focus of the accelerated-development strategy, and instead of emphasizing both speed and quality, they will emphasize quality and efficiency, and instead of trying to improve both production and the quality of life, more emphasis will be put on the latter.**

The first hint that the CPSU Central Committee would adjust the focus of the strategy of speeding up development came in June 1988, at the 19th All-union Conference of the CPSU. In his summary report delivered at that meeting, Gorbachev alluded to a change in the economic development strategy that had given priority to developing heavy industry. In reference to drawing up the 13th 5-Year Plan, he said, "social-reorientation of economic development and increasing consumption as a percentage of the national income are pivotal to the whole structural and investment policy, the reference point for determining the rate and proportion of economic development. Today, one point is very clear, radical changes are needed. This refers to the entire national economy, from the service sector to heavy industry and even the defense industry." At that meeting, renowned economist, Leonid Abalkin, questioned the validity of the general policy of pursuing both quality and speed. He said, "In practice, the general policy that stresses both quality and speed is impossible." It was a valid analysis. Back then, Soviet restructuring of the economic system had only just begun; enterprises had not set up a management mechanism that could handle both quality and speed, and old traditions, old habits, old methods still wielded strong influences. Therefore, when faced with the goal of emphasizing both quality and quantity, enterprises often gave up quality for quantity. As a result, they managed to

improve neither. Practice already proved that point. Meanwhile, because of deteriorating market conditions, when the 1989 Soviet socioeconomic development plan was ratified in October 1988, Soviet leaders did not wait until the 13th 5-Year Plan but decided to change the ratio between light and heavy industries and weigh the choice between quality and quantity in the 1989 plan. For example, they stipulated a seven percent increase in category B productions and three percent increase in category A productions in 1989. Since market supply was even tighter in 1989, further adjustments were made to the 1990 plan: Increase category B productions by 6.7 percent and category A by 0.5 percent.<sup>8</sup> This was unprecedented. With respect to overall economic growth, they slashed both the accumulation rate and investment scope: The rate of accumulation in 1989 was set at 18.4 percent, significantly below the approximately 25 percent in previous years. Consumption was raised to 81.6 percent. The 1990 centralized productive investment was further reduced by one-third, and the rate of increase in national income was set at below 1988's.

**Two, adjust the agricultural policy and rebuild the agricultural system.**

The success of the above-described readjustment of the industrial structure depends on many factors. First and foremost, it depends on whether they can increase agricultural production substantially. To date, the Soviet Union's agricultural sector still provides nearly three-quarters of the raw materials used in industries that produce consumer goods. If agricultural production falters, the consumer-goods industry cannot take off. It does very little good to try to solve the agricultural problems merely by readjusting the organization mechanism of management and increasing total investment. The Soviets have learned that they must change the relationships in the agricultural economy and arouse the agricultural workers' enthusiasm, so that "the people, who are the all-powerful owners, want to return to the land." The Soviet leaders are prepared to tackle the agricultural problems by adopting concrete measures in four areas: promote the leasing and contracting system; improve the rural social base structure and transform the rural society; upgrade the backward processing industry, storage system, and transportation system; vigorously promote intensive technology and scientific farming methods.

**Three, put heavy emphasis on light industrial productions and accelerate technological transformation.**

Whether the production of consumer goods can be increased quickly is determined by the light industrial sector's material and technological conditions. Light industrial productions have long been neglected in the Soviet Union, which has resulted in very backward technologies and facilities: 40 percent of the equipments are beyond fully-depreciated. Because of the backward equipment, low technological standards, wanton waste

of raw materials, extensive wear and tear, low productivity, poor quality, and lack of choices in the products, the supply is far from meeting society's needs.

To solve this problem, the Soviet Union specifically ratified the "Resolution on Implementing Technological Transformation in Light Industry, 1988-1995" and stipulated that 24 billion rubles' worth of additional high-quality consumer goods be produced during 1989 and 1990. To put this resolution into effect, they have decided to increase investment in the consumer goods industries on the one hand and import and utilize foreign capital on the other hand to bring about needed technological transformation. Among the joint-venture contracts signed between the Soviet Union and the West, a substantial number are dedicated to the production of consumer goods. Meanwhile, the Soviets have converted a part of the defense industry's production capacity to produce civilian goods. In 1989, civilian consumption goods produced by military enterprises accounted for 40 percent of all products in the same category; the total share is expected to increase to 46 percent in 1990. For example, the Medium Machine-building Ministry supplied more than 200 million rubles' worth of consumer goods in the market in 1989 and is expected to increase supply to 300 million rubles in 1990.

To ease the desperate shortage of consumer goods, on May 1989, the Soviet government appropriated \$59 billion to be used on importing consumer goods.

**Four, increase revenue and decrease spending and strive to reduce the budget deficit.**

The 1989 budget deficit is expected to top 120 billion rubles, 20 billion rubles more than estimated earlier this year. This situation simply cannot be allowed to go on. The Soviet authorities are determined to try every means to reduce the budget deficit. It is their aim to cut the 1990 budget deficit to half of 1989's, or 60 billion rubles, which is more than 10 percent of the fiscal revenue. They hope to achieve this primarily by increasing income and reducing expenditures. To increase income, they will try to enliven enterprises, improve economic efficiency, and raise taxes on cooperative and individual workers. To reduce expenditure, they intend to reduce productive investments, reduce defense spending and management expenses, consolidate money-losing enterprises, and cut government subsidies. They have set a schedule to deal with the huge budget deficit resulting from the serious price distortions gradually over the 1991-1995 period. In addition, they have changed the way the fiscal budgets are drawn up. The budget is separated into two parts: Current budget and developmental budget. The former takes care of essential expenditures which must be guaranteed; the latter assigns priority according to importance and urgency and allocate funds properly to reduce the budget deficit.

No doubt, if all of the above measures are implemented, the Soviet Union will be able to improve its deteriorating

economic situation. But there will be no quick turnaround, because there are many determining factors. Besides political stability, which is the major precondition, success also depends on whether the readjustment of the economic structure is successful, whether economic development can get on an intensive track, and whether the restructuring of the economic system can forge ahead successfully. It will take long-term effort to accomplish all these. "This is not an undertaking of a single generation."

#### Footnotes

1. On 6 August 1989, in answer to IZVESTIA reporter's question, Soviet Minister of Finance, Valentin Pavlov, said, "During the last three 5-year Plan periods, the money supplied was more than tripled, increasing by more than 100 billion rubles. Under normal economic conditions, 35-50 billion rubles is sufficient."
2. IZVESTIA, 19 Aug 89.
3. Ibid, 1 Aug 89, BUSINESS WEEK, 25 Sept 89.
4. Speech by Gorbachev at the closing of the April Plenary Session of the CPSU Central Committee, 1989.
5. Gorbachev's conversation with reporters from NEP-SZABADSAG, the Hungarian newspaper.
6. [TONGJI DAobao] Vol 5, 1989.
7. IZVESTIA, 22 Sep 89.
8. Ibid, 5 Sep 89.

## AGRICULTURE

### Agricultural Policy Viewed

HK2205053590 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 1, 20 Jan 1990 pp 61-65

[Article by Wei Longbao (5898 7893 1405), Agricultural Economics Department, Zhejiang University of Agriculture: "Multiple Goals in Agricultural Policy and its Contradictions in Practice"]

[Text] In developing agriculture, we first have to rely on policy and then on science. This is the fundamental experience obtained from the implementation of rural reform, and is also an objective requirement determined by the inherent special characteristics of agriculture itself. The biological nature of agriculture, and the reliance on land, the small scale of production, and the small degree of flexibility have led to a situation where agriculture cannot achieve the expected target under present social and economic conditions. Moreover, problems will emerge, such as low agricultural production efficiency, low returns to peasants, and fluctuation in the demand and supply of agricultural products. In China, where standards of material, technology, and equipment for developing agriculture are low, there is a serious shortage of cultivated land and of reserve resources for



agricultural development, and there is also a large volume of excessively low-quality rural labor. The state should attach importance to and rely on agricultural policy to solve agricultural problems in developing the economy. With the deepening of rural reform, in particular since the re-emergence of a fluctuating agricultural situation in 1985, more and more people have begun to understand that the present difficult agricultural situation in China is closely related to the decreasing effectiveness of agricultural policy. This article will briefly analyze the effectiveness of China's agricultural policy from the angle of the multiple goals of agricultural policy, the dependence of the policy's effectiveness on the environment in which the policy is being implemented, and other angles.

### I. The Target Model of China's Agricultural Policy

In stipulating any policy, a reasonable policy target should first be defined. A reasonable agricultural policy should reflect the will and ideals of a large proportion of the people (including peasants and urban consumers), and should also conform with economic, social, and political conditions. Speaking in terms of the present stage of rural and urban economic development and of the aspirations of rural and urban people, the target of China's agricultural policy can be summarized into the following several aspects.

1. Stabilizing the price of agricultural products. This is an important target all countries want to achieve. Except for developed countries, which have adopted an agricultural protective policy focused on stabilizing the prices of agricultural products which have been set too high, policies adopted by developing countries, including China, are in general aimed at maintaining low prices for agricultural products. There are several reasons for this. First, to ensure rapid expansion of industries in the initial stage of industrialization. The common characteristic of developing countries are a weak industrial foundation and a high proportion of agriculture in their economies. In general, rapid development of their domestic industries will be the natural option chosen to develop and transform their economies. In this way, it is natural that a portion of the accumulation will be transferred from agriculture and will be used as funds for developing enlarged industrial production. Therefore, it is essential to maintain a scissors gap between the price of agricultural and industrial products that is within an appropriate realm. Second, to protect the interests of urban consumers. In order to ensure a high rate of industrial accumulation in the initial stage of industrialization, the wage level of workers, who are mainly urban inhabitants, will in general be low. In this situation, in order to ensure the normal living of inhabitants, food prices should be kept at a level matching the purchasing power of the inhabitants. Third, to reduce a country's financial burden. In order to protect the production enthusiasm of peasants, some countries have often adopted the method of appropriately increasing the price of agricultural products. Under such circumstances, in order to alleviate the effect of agricultural price increases on the livelihood of urban inhabitants, the state should correspondingly adopt the

method of giving financial subsidies to ensure a low price of agricultural products. In this case, stabilizing the prices of agricultural products, which are set too low, is advantageous to alleviating financial burden.

2. Increasing agricultural productivity. The fundamental target of China's agricultural modernization program is to increase agricultural productivity, and this is also a basic point of the target of China's agricultural policy. This is not only because the increase of agricultural productivity is the precondition for launching any social and economic activity. For rural areas, this is the objective foundation for the transfer of excessive labor and for the readjustment of economic structure, and is also the basic precondition for the economic use and rational protection of cultivated land. Furthermore, this is also essential for increasing the operation efficiency of agriculture and for overcoming the difficult situation of agriculture.

3. Ensuring the supply of agricultural products and increasing self-sufficiency in grain supply. The reasons China has to emphasize increasing the supply of agricultural products by itself and on decreasing imports of grains and other agricultural products are: (1) Agriculture's contribution in earning foreign exchange. When the economy is initially being developed, the demand for funds and materials, which are essential for rapid industrial expansion, and the demand for imports, which is caused by the increase in domestic income, has led to foreign exchange shortages. Agriculture, however, can directly or indirectly substitute for imports by the supply of agricultural products. Moreover, agriculture can expand exports and thus earn foreign exchange. (2) China is a big country which has a population of 1.1 billion. It is very dangerous for it to completely rely on food imports to solve food supply problems. This is because food imports will generate two problems. First, imports of large amounts of agricultural products will place additional pressure on harbor and transportation services, which have a very weak foundation, and will thus cause a series of destructive chain effects. Second, the categories of the food imported into China will affect China's domestic agricultural production structure. This will create further difficulties in developing agriculture. (3) Importing large volumes of agricultural products will weaken China's motivation to increase agricultural production.

4. Increasing peasants' income and improving rural social welfare. The facts of rural economic development have illustrated that the development of China's agriculture will play a role in the following four aspects. (1) It can provide food and cellulose for the growing population and the expanding purchasing power. (2) It can provide funds (including foreign exchange) for the comprehensive transformation of the national economy. (3) It can directly improve rural welfare. (4) It can provide sufficient labor for industrial expansion and can provide a large market for the increasing number of industrial products and various consumer goods. These aspects are all closely related to the income of agricultural departments. That means if agricultural development cannot



increase the peasants' income, the role of agricultural development mentioned above will not be fully utilized.

## II. Contradictions of the Targets of Agricultural Policy in Practice

The targets of agricultural policy are the ideal results such agricultural policy wants to achieve. The task of agricultural decision-making departments is to find an optimal way to achieve these targets based on the practical foundation of the rural and urban economy. Therefore, the inherent contradictions among the targets of agricultural policy and the contradictions between the targets of agricultural policy and the conditions for agricultural development are the constraining conditions which have to be considered in searching for the optimal way. If these conditions are ignored when policy measures are being formulated, the policy effects that such policy measures should achieve will not be achieved.

### 1. The contradictions brought about by multiple targets of agricultural policy.

The inherent contradictions among the targets of China's agricultural policy have been reflected in the following several aspects.

(1) The conflict between the policy target of increasing peasants' income and the policy target that agriculture should provide accumulation for the growth of industry. Funds are the immediate force for promoting economic growth, while a shortage of funds is a big bottleneck constraining the development of the national economy. In this situation, the way to achieve an accelerating industrial growth rate through transfer of agricultural income to industry has become a policy target the state has been trying its best to achieve. However, under the precondition that aggregate agricultural growth is limited, the more the agricultural income is transferred, the lower peasants' income will be. In order to ensure super-rapid industrial growth and to achieve comprehensive transformation of the economy, the only method that can be adopted is to maintain long-term existence of a scissors gap between the price of industrial products and agricultural products. This has slowed down the speed of agricultural development, and has cut peasants' economic benefits. Such a result has shown that the recovery and development of agriculture has made great contributions to setting up the initial industrial system in China. However, with the strengthening of peasants' consciousness on the commodity economy and peasants' increasing concern about the economic efficiency of agriculture, the contradiction brought about by the unequal price of exchange between industrial and agricultural products will inevitably become more acute.

(2) The policy target of stabilizing the price of agricultural products, which is too low, is contradictory to the policy target of increasing the supply of agricultural products. The cobweb theorem of market supply and demand tells us that under the influence of a market, both demand and supply will always adjust by moving toward each other. Here, the role played by price is that

changes in the price level will lead to automatic adjustment between demand and supply. The equilibrium between demand and supply is directly affected by the price level. Therefore, in arousing the production enthusiasm of agricultural producers to increase the quantity supplied, the price of agricultural products will inevitably increase. When the role of peasants is changed from being a pure agricultural product supplier to a relatively independent commodity producer, the contradiction between the policy of stabilizing the price of agricultural products, which is too low, and the policy of increasing the supply of agricultural products will become very acute.

(3) The policy target of increasing the degree of self-sufficiency in grain supply is contradictory to the policy target of increasing the labor productivity and the operation efficiency of agriculture. In a country like China the population is large but the land resources available for production input are limited. When material and technology is limited, the effective input per unit area of land is also limited. If the amount of inputs—either of human labor or production materials—exceeds this limit, there will be diminishing returns on land productivity, and such increased inputs will even have no effect on land productivity. Therefore, within the realm of agricultural production, contradictions will often occur among the policy target of getting high aggregate output, the policy target of achieving high productivity of land, the policy target of obtaining high labor productivity of agriculture, and the policy target of getting high operating efficiency of agricultural enterprises. Moreover, when material and technological conditions are relatively stable, the returns per unit area of land achieved by inputs of human labor, materials and technology will be determined by the proportion between the price of input and output. Generally speaking, increases in the price of agricultural products can delay the emergence of the phenomenon of diminished returns to land. Moreover, as a result of the policy of stabilizing the price of agricultural products, which is too low, the contradiction between the policy target of increasing the degree of self-sufficiency in grain supply and the policy target of increasing the labor productivity and the operation efficiency of agriculture has become very acute in China.

### 2. The contradiction between the targets of agricultural policy and the conditions for agricultural development.

Whether agricultural policy targets are set scientifically or not is not only determined by the degree of perfection of the policy targets. The more important point is whether the targets conform with the objective trend determined by the conditions for agricultural development (i.e. the resources for and the situation of agricultural development of a country, its concept of value, and its practical political and cultural background). Of course, there will certainly be a gap between agricultural policy targets and the practical situation of the agricultural economy. However, if the ideal results the agricultural policy wants to achieve can conform with the

objective trend determined by the conditions for agricultural development, the gap between ideal results and practical conditions can be eliminated by implementing a series of policy measures aimed at achieving policy targets. Therefore, the effectiveness of agricultural policy is fundamentally determined by the degree to which agricultural policy targets conform to the conditions for agricultural development. The great success achieved in the first step of rural reform is attributed to the fact that breaking up the traditional agricultural production system and mobilizing the enthusiasm of the broad masses of the peasants have been taken as the targets of reform. It is also attributed to the fact that a series of agricultural policy measures focusing on extensive implementation of the output-related system of contracted responsibilities has been adopted, and to the fact that these measures have matched the objective realities of the rural economy and have met the real demands of the broad masses of the peasants. This reform has not only raised China's efficiency in agricultural resource allocation and its level of agricultural production, but has also profoundly changed peasants' concept of values. Under these conditions, the series of agricultural policy and measures formulated to achieve the targets of China's agricultural policy at the present stage have encountered many new contradictions in practice. Consequently, these contradictions have to a certain extent affected the normal role to be played by the effectiveness of agricultural policy. This has been reflected in the following aspects.

(1) The state's task of purchasing grain and cotton from peasants has been adversely affected by the peasants' strong desire to get rich. Implementation of the output-related system of contracted responsibilities has enhanced peasants' power in making independent production decisions and their understanding of the commodity economy concept. Being independent producers of commodities, peasants have become very eager to have a justified position and to benefit from commodity exchange. Further implementation of rural reforms will involve the issue of benefit readjustment at a deeper level. When policy measures of reform are not coordinated, the benefits of peasants will often be affected. In the past, beneficial relations between peasants and the state was indirectly established through collectives—intermediary units—and such a relationship was a concealed one. Moreover, due to peasants' consciousness of egalitarianism, they were not conscious about whether their benefits were affected. However, with the break down and distribution of such tasks to households, benefit contradictions at present are direct and clear.

(2) In order to fulfill the state's purchase plan, administrative means have to be used to allocate resources in the rural economy, and to combine the means of production. However, with the gradual transformation of the rural economy from a natural or semi-natural economy into a commodity economy, the introduction of markets has begun to replace the traditional planning model. At present, the traditional planning model, which still remains in the circulation

realm of agricultural products, can only play a limited role in these two aspects: (a) A double-track system still has to be implemented in handling staple agricultural products such as grain in a considerable time period in the future. (b) The price of staple agricultural products is still set by the state. The implementation of the double-track system has enabled staple agricultural products, which are not under the purchase plan, and other categories of agricultural products to enter and circulate in the free market. At present, although agricultural products still occupy a large proportion of products covered by the purchase plan, a large step has been taken along the path of marketization. The situation where the selling and purchase price of staple agricultural products are still set by the state conforms with the situation where such products contribute to a large proportion of the products to be purchased according to state plans. With the decrease in this proportion, price readjustment will never be a distorted and false market signal. Moreover, the value concept will play a more important role in allocating resources and in combining the means of production in the rural economy.

(3) Peasants' input in agriculture has been constrained by the low operating efficiency of agriculture and the low level of agricultural accumulation. Practices proved that long-term stable agricultural growth will rely more and more on a continuous increase in the input of modern production technology and the means of production, and modern and advanced technology takes tangible material investment as its carrier. Therefore, the increase in agricultural investment is the material precondition for agricultural development. The state's limited amount of additional investment in agriculture has been mainly used in bringing rivers under control, in developing agro-industry, and in developing agricultural education, agricultural science, and agricultural technology. The increase in direct investment in the agricultural production process has mainly depended on the people managing agricultural production. However, with the continuous progress of the commercialization process in the rural economy, the economic behavior of peasants has increasingly been brought under the control of the law of value. The enthusiasm of peasants in investing in land will be determined by the rate of returns on land. The present situation where the price ratio of agricultural products has been set too low has resulted in economic returns of agricultural production (in particular the production of grain, cotton, oil and others) which are very low. Consequently, it is difficult for agriculture to form a self-accumulation mechanism. Therefore, peasants will always take the limited amount of investment from the agricultural realm and will invest it in products that will bring higher returns.

(4) The transfer of excessive agricultural labor has been constrained by the low production rate of agricultural labor and the insufficient development of non-agricultural industries. The phenomenon of excessive agricultural labor is an inherent phenomenon of the dual economic structure. The transfer of excessive agricultural labor is constrained by many factors. At present, there are two main obstacles in transferring excessive

agricultural labor in China. (a) Under the situation where material supplies and technological conditions for agricultural production remain unchanged, and where the production rate of agricultural labor is low, pure transfer of agricultural labor will inevitably affect the aggregate agricultural output level. (b) There has been insufficient development of non-agricultural industry, which is the carrier for the transfer of excessive agricultural labor. In recent years, as the scale of investment in industrial production gradually decreased, the speed at which labor was transferred from agriculture to industry has slowed, and the phenomenon where labor is transferred from industry to agriculture has emerged. Therefore, in order to optimize the rural economic structure and to increase the utilization rate of agricultural labor, the organic structure of agriculture should be gradually enhanced, and non-agricultural industries should be vigorously developed.

(5) Expansion of the operation scale of agriculture and optimization of the production factors are constrained by land and the contracting of other resources. With the continuous increase in the level of agricultural production technology, the operation scale of agriculture will certainly be expanded. This is an important way to increase the output rate of land and the production rate of agricultural labor. However, due to present resources for agricultural production, in particular those set by the system of contracted equivalent area of cultivated land, and other specific constraints such as the constraint on non-agricultural use of land, the constraint on changing the use of cultivated land from growing grains into growing cash crops, the constraint on people's employment after they have left the rural area, the constraint on peasants' need for being self-sufficient, the constraint on the accumulation of funds and the operation efficiency of peasants who have obtained the right to use land, and so on, land circulation has been obstructed. Where there has not been a smooth mechanism for land circulation, expansion of the operation scale of land and the achievement of the target of managing agriculture in an enterprise-oriented way will be very difficult to obtain.

### III. The Solution: Combining Policy Targets, Policy Measures and Economic Realities

In order to ensure the role of agricultural policy targets in guiding agricultural development, and to continuously develop the effectiveness of policy targets in agricultural development, departments responsible for making agricultural decisions should consider the degree to which agricultural policy targets and agricultural policy measures can match the realities of the rural economy in setting the targets of agricultural policy and in formulating agricultural policy.

1. Coordination among the diversified targets of agricultural policy should be ensured to eliminate conflicts brought about by contradictions between policy targets, and between policy targets and policy measures.

(1) The diverse nature of agricultural policy targets requires coordination among the diversified targets of agricultural policy. Within a certain realm, there objectively exist conflicts of interests among urban consumers, peasants, and the state. Therefore, the contradiction among targets of agricultural policy is also an objective contradiction. For instance, if peasants' income is to be increased, it will not be possible to excessively transfer agricultural income into industry. If we want to arouse the enthusiasm of peasants in increasing agricultural investment and in developing agricultural production, the price of agricultural products cannot be kept at a low level for a long period of time. Where agricultural material and technological conditions are relatively stable, if aggregate agricultural output is to be increased to a maximum level, the labor productivity of agriculture has to be sacrificed as the cost for obtaining such an increase. Obviously, any single agricultural policy measure will not be able to satisfy the requirements set by diverse targets of agricultural policy. Therefore, to formulate a set of coordinated agricultural policies is the objective requirement of the multiple goal of agricultural policy.

(2) The single-direction of the role of policy measures requires agricultural policy, which has multiple goals, to have a complete system to comprehensively balance the role of various agriculture policy measures. Policy measures are strategic principles and behavioral criteria formulated for achieving policy targets based on the realities of the economy. Therefore, different policy targets should have different policy measures. The contradiction between the targets of agricultural policy will certainly be reflected in agricultural policy measures. For instance, there is a conflict between the policy where peasants are required to help fulfill the state's task of purchasing a quota of agricultural products from peasants to ensure the supply of agricultural products and the policy where peasants are allowed to readjust the rural industrial structure themselves, according to the law of value for maintaining their income level. Moreover, there is also conflict between the policy of using administrative means to allocate rural economic resources and the policy of vigorously developing the rural commodity economy. Besides, the policy of vigorously transferring the agricultural labor force to increase agricultural labor productivity is contradictory to the policy of vigorously increasing human labor inputs in agriculture in order to increase the aggregate agricultural output. Apart from these, the policy of expanding the operation scale of land is contradictory to the situation where the system of equivalent contracting of land continued unchanged for a long period of time. Therefore, before launching every new policy measure, a corresponding supplementary policy should be formulated to avoid making the mistakes that will be brought about by the single-direction nature policy measure.

2. The latest situation and trend of rural economic development should be grasped in time, the central target of agricultural policy at various stages should be clearly defined, and agricultural policy measures should be continually optimized to avoid the emergence of the

situation where agricultural policy targets deviate from the realities of the rural economy.

(1) The central target of agricultural policy should be clearly defined. Agricultural policy is related to an open economic system which has diversified targets. Therefore, in order to set the targets of agricultural policy in a concrete way, the limit of each target should be clearly defined. At various stages of economic development, different degrees of emphasis should be attached to different targets. At the present stage, the general shortage of agricultural products is still the root of China's agricultural problems. Therefore, the target of China's agricultural policy should be ensuring the supply of agricultural products and on gradually increasing agricultural productivity. The other targets of agricultural policy should first follow this target. Only when a strong and comprehensive agricultural policy system is established according to this central target can the role of agricultural policy in guiding, controlling, and regulating agricultural production be fully brought into play.

(2) Agricultural policy measures should be optimized. Material and non-material costs, such as the sacrifice of resources and the conflicts among various interests, should be paid in implementing economic policy measures. Therefore, implementing agricultural policy measures will also involve readjusting the relationship of interests among peasants, urban consumers, and the state. The optimization of agricultural policy measures should conform with the following principles, which are basic preconditions for normal development of the effectiveness of agricultural policy. (a) Democratic management methods should be thoroughly adopted. A system of administrative orders cannot be adopted in developing agriculture. (b) Fair economic relations should be established. Establishing fair relations between rural and urban areas, and between agricultural and other economic departments on an economic foundation will concern the union between industry and agriculture, and the direction of socialism. (c) The development of people in rural areas should be emphasized so that peasants and their labor can occupy the position in society that they should occupy, and a balance between rural and urban development can be promoted.

#### **Liaoning Sees Reduced Grain Sales at State Prices**

90CE0074A Beijing JIAGE LILUN YU SHIJIAN  
[PRICE: THEORY AND PRACTICE] in Chinese No 2,  
20 Feb 90 pp 24-30

[Article by Wang Tieyun (3769 6993 0061) and Zhang Shumiao (1728 2885 8693): "Investigation of Cutbacks in State Price Sales of Grain and Edible Oil in Liaoning Province"]

[Text] Editor's Note: Beginning in October 1989, Liaoning Province decided that some of the grain and oil formerly supplied at state price would be supplied at a negotiated price and left to market regulation. This measure aroused a great reaction in both Liaoning and

throughout the country. The authorities concerned dispatched people to Liaoning Province to conduct a survey. The situation survey written by some of the personnel who took part is published in this journal. These are the views of the authors, which have not yet been completely and thoroughly analyzed. This publication is publishing them for the reference of readers concerned with this matter, and welcomes articles containing analytical views from everyone.

The uniform sale price of grain and edible oil has remained unchanged for many years while state purchase prices have risen steadily, the inversion between purchase and sale price becoming increasingly serious. Liaoning Province's annual government subsidization of grain and edible oil prices has increased more and more. In 1988, it spent 1.442 billion yuan, or 20 percent of total annual government expenditures on the subsidization of grain and edible oil prices. At the same time, grain production in Liaoning did not advance after 1984; the gap between the fixed contract procurement price and the market price widened; and fixed contract procurement quotas went unfulfilled for several years in a row. Fixed contract procurement quotas in Liaoning Province for the years 1985 through 1988 were 10.5 billion, 9.5 billion, 7.85 billion and 7.85 billion jin respectively, while the actual amount of procurement during the same period was 5.3 billion, 6.6 billion, 7.18 billion, and 7.46 billion jin respectively. In 1988, province grain sales at state prices totaled 10.28 billion jin, and only 7.46 billion jin of the fixed procurement amount was actually fulfilled that year. Because of the extreme imbalance between receipts and disbursements of state price grain, Liaoning had no choice but to import grain from other provinces and countries, as well as convert negotiated price grain to state price grain to solve the problem. Liaoning Province had to bring in approximately 3 billion jin of wheat from outside the province, and it had to convert approximately 1.5 billion jin of grain purchased at negotiated prices to state price grain for fulfillment of plan quota. As with grain, Liaoning also had an approximately 200 million jin shortage of edible oil. Faced with the dual pressures of excessive financial burdens and a shortage of supply of state price grain and oil, the provincial government began to study cutbacks in sales of state price grain and oil as a means of solving the problem. In 1989, Liaoning Province was hit with a serious drought that reduced grain output by 5 billion jin causing an even more serious grain supply problem. Fulfillment of fixed procurement quotas reached only 4.42 billion jin that year. Thus, in August, the provincial government requested State Council approval to restrict sales of state price grain and edible oil. After receiving approval, the province began to carry out this action beginning on 1 November 1989.

#### **Reduced Grain and Edible Oil Sales and Associated Measures**

(1) Reduced Sales. The Liaoning Provincial Government "Notice on Changing Some State Price Grain and Edible

Oil Sales to Negotiated Price Sales" dated 23 October 1989 stipulated: Some grain and edible oil supplied at state prices is to be supplied at negotiated prices and left to market regulation. Those affected by the change from supply of grain and edible oil at state prices to supply at negotiated prices include the following: City and town food and beverage businesses, pastry businesses, catering businesses, and all grains and edible oils for which ration coupons are not required; grain units having storefront plants where grain rations may be traded for edible oil; all industries using edible oil with the exception of those that make soap; all grain bought back from the state by fruit farmers, seed production households, and tobacco farmers, as well as all grain and edible oil that vegetable farmers below the county level (including counties, but not county-level cities) buy back from the state. In addition, 20 percent of the grain and edible oil supplied at state prices to vegetable farmers in urban areas is to be restructured and reduced, as well as 20 percent of the grain supplied at state price to state-owned, and to city and town livestock farms.

The amount of grain involved in the planned cutbacks in Liaoning totaled 1.47 billion jin (raw grain), including a 970 million jin cutback in cities, a 920 million jin cutback for food businesses, and a 50 million jin cutback for catering service businesses. Cutbacks in state price grain sales to rural villages totaled 500 million jin, 40 million jin of it applied to seed production households, 125 million jin to fruit farmers, 174 million jin to vegetable farmers below the county level, 91 million jin to vegetable farmers in suburban areas above the county level, 5 million jin to tobacco farmers, and 14 million jin to fishermen and salt producers. State price sales of edible oil were also cutback by a corresponding 100 million jin. Cutbacks in sales of state price grain consisted mostly of wheat in cities and corn in the countryside. Cutbacks in sales of state price oil were for soybean oil.

Beginning 1 November, additional new measures took effect in Benxi City where the municipal government ruled that prior to the issuance of Liaoning Province grain ration coupons, grain departments were to collect 0.32 yuan per kilogram from enterprise units as a state-negotiated price differential for special grain allowances to workers that grew grain. When purchasing grain or edible oil rations provided for health reasons, enterprise units were to pay a state-negotiated price differential of 0.36 yuan and 3 yuan respectively per kilogram of grain and oil. The regulations also provided for the collection of a compensation fund of 10 yuan per person per month from all staff members and workers of record (including those in privately owned businesses and individually owned enterprises) throughout the city, the enterprises to bear responsibility for making the collections, tax units turning the money over to the treasury once each month. Enterprises were permitted to list grain compensation fund payments as pre-tax expenditures and carry them as costs.

For various reasons, Dalian began to reduce sales of grain and oil at state prices on 11 November, 10 days

later than other places. Because of this, the panic buying spree in Dalian was more serious than elsewhere.

(2) Concomitant actions taken at the time of sales cutbacks. To implement this major state price grain and edible oil sales cutback measure in a smooth fashion, doing all possible to reduce adverse effects on the market, the Liaoning Provincial Government and units in charge concerned adopted a series of relevant measures that played a definite role. The provincial government called upon the media and official organizations concerned to intensify propaganda to make the public understand these measures and to calm the public's thinking and feelings. It also specifically ruled that grain for the use of other industries and business in cities and towns, and grain bought back by others in rural villages would continue to be provided at the prevailing prices; and guaranteed supply to residents of fixed grain and edible oil rations without change in either the amount or the price, certifying that grain in stock and grain ration coupons would not be invalidated. The provincial government also called upon all jurisdictions to actively organize sources of grain following the cutbacks to do a good job of supplying markets selling grain and edible oil at negotiated prices. Before the cutbacks, the provincial grain sector organized all sources of grain, the negotiated price grain in storage amounting to more than 2 billion jin more than at any previous time. The Shenyang Municipal Government ruled that supply channels would remain unchanged following the change from state price to negotiated price, and that state price grain purchase certificates would be stamped for use in supplying grain at negotiated prices. However, since this measure could not be publicized before its enactment, some panic buying ensued following its enactment, and it also caused some acrimony among the residents.

Following cutbacks in sales of grain and edible oil at state prices, the public feared that certificates they held for the purchase of grain would not be honored in the future, so they hurried to buy and take home coarse grains that they had rarely purchased heretofore. As a result, grain shop sales of corn flour increased greatly, some grain shops depleting their stocks of corn flour. To stabilize government price grain and edible oil markets, and insure the resident's supply of grain rations, all jurisdictions took action to increase corn flour and corn meal production by going on overtime, thereby increasing processing capacity, and by mobilizing primary level small processing facilities in townships and towns, as well as other processing enterprises to process finished grain. Some cities also converted their wheat flour workshops into corn processing workshops for the time being. During the period of reduced state price sales in Dalian, the panic buying of soybean oil went on for approximately 1 month. The city's grain and edible oil supply units used methods such as providing supplies day and night and increasing the number of oil deliveries to shops to insure supplies of edible oil, simultaneously calming the public's worries.

To control the volume of grain ration sales, and avoid imbalance in the supply of grain rations, all jurisdictions adopted measures limiting the amounts that residents could buy. Shenyang City stipulated that each person could buy no more than 20 jin of grain rations at a single time, and that they could buy more after that amount was consumed. Grain purchases remained in turmoil for 2 months running.

During the time the restricted state price sales policy was being inaugurated, unlicensed small peddlers in markets at Yingkou and Anshan illegally purchased residents' corn flour or exchanged eggs for it. They purchased the flour that residents bought at grain shops for 0.68 yuan per kilogram only to resell it to livestock feed plants or state-owned breweries for 0.76 yuan per kilogram. Grain departments and industrial and commercial units in Yingkou City and Anshan City took action to deal with this situation, fining some peddlers and confiscating the grain that they had obtained in exchanges.

To insure the supply to workers that grew grain, some areas issued "labor grain purchase certificates." On 1 November, grain departments in both Jinzhou and Fuxin cities adopted the use of "labor grain ration purchase cards" to supply grain to workers that grow grain. On 1 December, Shenyang City began to supply grain grown by workers for labor grain certificates. The institution of this method both effectively controlled the use of grain coupons to purchase coarse grains, and insured the supply of supplementary grain to workers that grew grain.

Since the difference between the state price and the negotiated price of grain and edible oil was large, following cutbacks in sales of state price grain, prices of food made from the formerly state price grain and edible oil rose tremendously. To control further price rises, the provincial price bureau sent telegrams containing new regulations regarding greater control over negotiated price grain and edible oil prices, and the setting of prices of pastries and staple foods in the food industry following the change from state prices to negotiated prices. It called upon all jurisdiction to set negotiated grain and edible oil prices once each quarter, the amount of profit not to exceed the present profit level in principle. In cases where the differential price rate at links in the circulation chain tended to be high, they should be appropriately reduced, and where the gross profit rate for different grain and oil products in food service business were too great, they should also be appropriately reduced as well. Pricing units in all jurisdictions re-examined and revised prices of main products made from negotiated price grain and edible oil, as well as the ex-factory prices or retail prices of food from pastry businesses and the food industry in accordance with principles set by the provincial pricing bureau.

In addition, following the cutbacks, civil government units conducted a survey of those in rural villages who had formerly re-purchased grain from the government,

making specific arrangements for those peasant households that were truly needy. Since the situation whereby peasant households in rural areas ate grain repurchased from the state was fairly complicated, the livelihood of some peasant households was truly adversely affected following the cutback in sales of state price grain.

#### **Benefits From Reduced Sales of Government Price Grain**

The reduction in state price grain sales played a definite role in reducing government financial burdens and improving the critical situation existing between receipts and disbursements of state price grain. It also created a climate for fair competition among food and beverage enterprises.

(1) Reduction of government financial burdens. Not only did the reduction in sales of state price grain and oil reduce government subsidization of the differential between purchase and sale prices, but it also reduced the subsidization of grain enterprises' operating expenses. For example, direct subsidization of miscellaneous shipping fees, bagging fees, commodity spoilage, and interest incurred in the flow of commodities could be correspondingly reduced. According to a preliminary estimate, approximately 250 million yuan in government expenditures could be cut. If the reduction of some operating expenses is added in, the reduction of government payments is even greater. In addition, sales of commodity grain and oil correspondingly increased following the reduction of state price grain and oil; thus, the increased tax revenues from the increase in sales of negotiated price grain and oil could also increase government revenues somewhat. However, the increase in state price sales of coarse grains resulting from the reduction in state price sales could cause some areas to exceed the actual contracted amount of state price grain rations. Consequently, the reduction in sales of state price grain and edible oil could cause some loss in benefits from reduced government payments. For example, following the reduction in state price sales in Anshan City, the per capita monthly grain ration purchase was 26 jin, but the government contracted with grain units for only approximately 25 jin. Where it had been formerly anticipated that government payments would be reduced by 20 million yuan, because of the increase in the amount of grain ration sales, actually only somewhat more than 17 million yuan of the government's grain subsidies could be reduced. Results in implementation throughout the province during the past 2 months show that the predicted monthly per capita amount of grain ration purchases will remain at the contracted level. Therefore, the effect of this factor on reduced government disbursements will not be great. If the amount of negotiated price grain converted to state price grain were correspondingly reduced following the reduction in sales of state price grain, government subsidies could be reduced even more.

(2) Guaranteeing the supply of fine grains [wheat and rice] to residents. Liaoning lacks fine grain. Only 12 jin

of the monthly 30 jin per capita grain ration is fine grain, consisting of equal amounts of wheat flour and wheat. A substantial amount of fine grain supplied at state prices is used in industry. When the province was hit with natural disasters during 1989, the conflict between supply and demand for fine grain became more pronounced. If reduced grain sales at state price had not been implemented, great difficulties would have been encountered in insuring supplies of fine grain. Following the cutbacks in sales of state price grain, the monthly per capita amount of fine grain will be maintained at more than 12 jin. In Shenyang, the amount can be maintained at between 13 and 14 jin. However, the easing of the conflict between supply and demand for state price fine grains will not only be reflected during the next 1 or 2 years, but will continue in the future.

In addition, Liaoning lacks edible oil. The reduction in sales of edible oil at state prices by 100 million jin remedies half of the state price edible oil supply gap. Thus, not only does the government get rid of a burden, but this action also plays a definite role in easing the critical situation between supply and demand for state price edible oil in the province.

(3) The change from state price to negotiated price sales of grain and edible oil created an economic climate of fair competition among food processing industries and food and beverage service businesses. Some food processing enterprises and food and beverage businesses that had formerly relied on grain and oil being supplied at stable and extremely low prices made rather good profits. After sales of grain and oil at state prices were abolished, the advantage that enterprises enjoyed in relying on state subsidies vanished along with it, and they immediately faced numerous new problems. Their sales volume and profits declined dramatically, so much so that some enterprises halted or semi-halted operations. Meanwhile, the effect was relatively slight on those enterprises who formerly enjoyed a fairly high business level. Today, no distinction is made between state price and negotiated price for the grain and edible oil that these enterprises require for processing. The great differences that formerly existed in the enterprise business environment no longer exist. To compete in the new economic climate, those enterprises that formerly depended on the supply of grain and edible oil at state prices began to improve their methods of doing business. They improved the quality of their service to attract customers and turn around the decline in their sales volume. The Shenyang Municipal Service Industries Control Bureau coined the slogan "four improves and four augments." The "four improves" are improve varieties, improve quality, improve service, and improve management. The "four augments" are increase mass appeal and medium and low quality foods, using the low to augment the high; increase many small varieties, using the small to augment the big; make home deliveries in residential areas, using work outside to augment work inside; and increase breakfast foods, using breakfast foods to augment sales of food consumed later in the

day. Following the cutbacks in state price sales, the Chang Jiang Food Factory increased its production from the former 60-odd kinds of food to the present 120-odd, thereby greatly improving the enterprise's competitiveness. Managerial personnel at the Shenyang Childrens' Food Factory feel that the former simultaneous existence of supplies at state prices and negotiated prices meant that enterprises could not compete fairly in the same environment. The abolition of state price sales of grain and edible oil was just what they had wanted.

(4) Helps conserve grain. Estimates of departments concerned show that following the cutbacks in sales of grain and edible oil at state prices, the amount of grain and oil state price sales and the increase in negotiated price sales together were not greater than the amount of cutbacks in state price sales. The amount of residents' grain consumption declined as prices rose. The cutbacks promoted conservation in grain consumption. This holds important significance in China where grain is in short supply and waste is serious.

#### Problems Following Reduction of State Price Sales

The change from state prices to negotiated prices in the supply of grain and edible oil generated a corresponding rapid rise in prices of products concerned, thereby having a substantial adverse effect on both the livelihood of city residents and some peasants, and on food processing industries and food and beverage businesses using grain and edible oil as their principle raw materials. This effect showed up in the following several ways:

(1) Following the reduction in state price grain sales, a "devaluation" of grain ration coupons occurred. No longer could grain ration coupons be used to eat in restaurants or to buy pastries. The extent to which grain ration coupons could be used diminished greatly. The uses to which accumulated ration coupon could be put were restricted. Therefore, following the reduction in sales of grain at state prices, the usefulness of grain coupons declined dramatically. In Shenyang City, where formerly coupons for 40 jin of grain could be exchanged for 1 jin of chicken eggs, following reduced sales of grain at state prices 120 jin or even 150 jin worth of grain coupons were required. As of now, grain coupons can no longer be exchanged for products such as eggs. Today, residents have varying amounts of grain coupons on hand, and some residents' families have coupons for as much as 1,000 jin of grain. Coupons exchangeable for the purchase of approximately 2.6 billion jin of grain have been siphoned off throughout the province. The public feels extremely concerned about what is to become of these virtually invalid grain coupons. Despite repeated government assurances that the grain coupons will not become invalid, it is still unable to eradicate the public's apprehensions.

(2) After some grain and edible oil supplied at state prices was changed to supply at negotiated prices, sales of grain and edible oil rations rose markedly. Since the percentage of fine grain in grain rations in Liaoning is



not large, the rise in sales of grain rations showed up mostly in a huge rise in sales of coarse grains and corn flour. In 1988, grain shops throughout the province sold only between 2 and 3 jin of corn flour per capita per month, but in November 1989, purchases rose to 10 jin. During the same period, per capita monthly grain purchases in Shenyang rose from 2 to 6 jin, and in Anshan the rate of rise was somewhat higher. The rise in corn flour sales is attributable to the following several reasons: (1) The restricted usefulness of grain coupons. The number of people buying staple foods in restaurants and grain shops declined dramatically. Because not much fine grain was available, some coarse grain had to be used to augment what was available. In Jinzhou and Chaoyang, where the residents never ate much corn flour in the past, approximately one-third of the population began to eat it now. (2) Because residents could not be sure that their coupons for grain would be honored, following the reduction in state price grain sales, numerous people exchanged for eggs and other goods the corn flour they had purchased using grain coupons. Some peddlers and mills bought corn from the residents, and many members of the public bought state price corn from grain shops only to sell it to these units and individuals at high prices. (3) Following a drought, when there were a substantial number of grain-short peasant households in the countryside, quite a few city residents purchased grain for their rural relatives, state price corn thereby flowing into the countryside.

Following the cutbacks in state price grain and oil sales, the panic buying of soybean oil became extremely commonplace in Dalian. Before the reduction in state price sales, Dalian sold approximately 4,500 tons of soybean oil from stock against coupons. In November 1989, however, the city's soybean oil sales at both state price and negotiated prices reached 6,827 tons, or 3,242 tons more than during the previous month. For the same reasons that sparked the panic buying of grain, the peasants feared the price of soybean oil would rise, and they worried that their coupons for oil would expire. Their panic buying caused grain shops to exhaust their stocks of soybean oil. Basically, the reason for the increase in sales of ration grain and ration oil was that the public wanted to continue to enjoy government financial subsidies and avoid damage to their vested interests.

(3) Because the price differential between list prices and market prices of grain and oil was very great following the change from state price to negotiated price sales, the prices of grain and oil and finished goods that used them shot up. Standard grade wheat flour and rice, which had formerly been supplied at a state price of 0.185 yuan per jin increased to a negotiated price of 0.80 yuan per jin. The price of corn flour rose from 0.087 yuan to 0.345 yuan per jin. This was a 4.3 and 4 fold rise respectively. The price of cooked rice rose from 0.30 yuan to 1.40 yuan per jin; the price of steamed bread made from standard grade flour rose from 0.25 yuan to 1.15 yuan per jin; and the price of deep-fried twisted dough sticks

increased from 0.70 to 2.20 yuan per jin. The prices of cooked rice, steamed bread, and deep-fried twisted dough sticks increased 4.7, 4.6 and 3.1 fold. Prices of foods such as steamed stuffed buns, and dumplings with meat and vegetable stuffing for which wheat flour was incidental did not rise very much. Generally speaking, prices of low quality foodstuffs rose the most, followed by medium quality foodstuffs. The rise in prices of high quality foodstuffs was somewhat less. Biscuit prices rose a great deal, but prices of ordinary snacks rose somewhat less. For example, in Shenyang the retail price of dough twists made of refined flour rose from the former 0.20 yuan to 0.50 yuan each; the price of animal crackers made of fine quality white flour increased from 1.16 to 2.15 yuan per jin; and the price of cake made from refined flour rose from 1.95 to 2.70 yuan per jin. The retail price of these three different products increased by 150, 85, and 38 percent. The retail sale price of high protein longevity cake sold by the Anshan Municipal Sugar, Alcoholic Beverages, and Cake Company increased only 3.4 percent.

The tremendous rise in the price of grain and edible oil, and manufactures made from them spurred a rise in the overall retail price level. A comparison of relevant indices for October and November 1989 show this to a marked degree. During October 1989, retail prices of grain and pastries increased 18 and 22.3 percent respectively; in November, they rose 24.7 and 40.9 percent respectively in a 6.7 and 18.6 percentage point increase. This was markedly higher than the retail price level for grain and pastries during the period January to October. (The increase for grain and pastries from January to October was 189.5 and 32.3 percent). Calculations made by statistical units in Liaoning Province show that cutbacks in state price sales of grain and oil will cause a 3.7 percentage point rise in the retail price index for the year.

(4) The effect on enterprises. Cutbacks in retail sales at state prices directly affected food processing industries and food and beverage businesses that had used state price grain and edible oil as their main sources of raw materials. Psychologically, people were still unaccustomed to such high price levels and found them difficult to accept for a time. As a result, both the sales volume and the profit rate of these enterprises fell markedly. Most food plants did not have enough work to do, so their staff members and workers took turns going on leave. Some enterprises halted or semi-halted production and found it very difficult to pay wages. The effect on areas in the province that were contiguous with other provinces was even worse. Plants in Liaoning found it difficult to compete with food industries in nearby Hebei and Jilin, which were still able to obtain grain and edible oil at state prices. Following cutbacks in state price sales, retail sales of staple foods and pastries in the food and beverage industries declined by a general 30 to 50 percent. Since the amount of capital tied up in products rose, and the volume of loans increased manifold, enterprises' profit to cost ratios began to decline. In Shenyang,



a fairly large enterprise in the food industry, the Chang Jiang Food Factory, saw a 33 percent rise in its retail prices following cutbacks in state price sales of grain and oil, and a decline in its profit rate from 90 percent to 50 percent. Following cutbacks in state price sales, children food plant, cake plant, and food plant output declined 30 to 40 percent.

Statistics from the Shenyang Municipal Service Trades Administration show a 70 percent decline in the use of grain throughout the system from 2,430 to 1,051 tons in November 1989 as compared with the same period in 1988, and a 14.6 percent decline in sales volume. This included a 27 percent decline in the retail sales volume of breakfast foods. Some restaurants in bustling downtown areas that had formerly sold between 200 and 300 jin per day of deep-fried twisted dough sticks for breakfast saw their sales plummet to between 40 and 50 jin. Shenyang City stipulated that following the cutbacks in state price sales, all staple foods produced by the food and beverage industry should carry a retail price that produced the same gross profit rate as previously, but in order to reverse the decline in retail sales volume, numerous enterprises automatically lowered their gross profit rate. One-third of all the restaurants in Shenyang under jurisdiction of the municipal service trades administration that sell mostly staple foods suffered losses, and some restaurants had trouble paying wages. The staff members and workers in these enterprises grumbled quite a bit, and hoped that the government would take corresponding actions. Managerial personnel in some enterprises said that making the change from uniform sale prices to negotiated prices in a single step had too great an impact on enterprises. They wished that it had been done in two steps, first changing to supply at proportional prices, and later changing again to supply at negotiated prices.

Yet another group in the grain system that was fairly greatly affected by the cutbacks in state price sales of grain and edible oil was units having storefront production plants. After abolition of the supply of grain rations and the exchange of oil at state prices, the number of such enterprises declined dramatically, and most of the temporary workers that had been hired were let go. Within a month after the cutback in state price sales, the number of storefront plants in Shenyang fell from 192 to 68, and their business volume dropped from 1,500 to 140 tons. Since these store-front plants were only an adjunct to the grain system, even though they were very hard hit, the effect on the grain system per se was not too great.

After reducing sales of grain grown by workers in Benxi, enterprises assumed the burden and adapted special compensatory actions for workers. Workers incurred no increased expense, and there were few complaints. However, some enterprises that were in a slump and operating at a loss at that time felt very severe pressure, because the state and negotiated price differential and the grain supplementary fund, which amounted to 123 yuan per worker per year was truly a heavy burden for

these enterprises to bear. This was even more the case with coal mining enterprises.

It should be noted that the slump in the food processing and food and beverage industry cannot be entirely attributed to cutbacks in sales of grain and edible oil at state prices, even though this was the most important reason. The stagnation affected more than just these two kinds of enterprises; it was a common problem that most industries faced. In Shenyang, some enterprises could not pay worker wages, and this naturally produced an adverse effect on the food and beverage industries. Another factor was the campaign in Party and government organizations to bolster the building of clean government, which greatly weakened the previously booming eating and drinking craze. Naturally, this adversely affected the returns of the beverage and food industry. A glut had already occurred in these two industries that depended on the eating and drinking craze and excessive consumption for their rapid development. The excessive burdens that enterprises carried were also a major reason affecting returns from production. First, the number of retrenched or retired workers in state-owned and collective enterprises was fairly substantial, and medical expenses were exorbitant. Enterprises had to pay large sums for purposes having nothing to do with operations. Forty-nine restaurants under jurisdiction of the Shenhe District Service Trades Administration in Shenyang City had 1,500 workers on the job and 1,031 retrenched and retired personnel. The Dalian Childrens' Food Plant paid 500,000 yuan in non-business expenses each year, 400,000 yuan of it for medical expenses. Second was new fees and many measures adopted during the past several years of economic reform, such as the change of hidden subsidies to open subsidies, which increased enterprises' burdens in varying degrees. New expenses added in Shenyang during 1989 included a land tax, a stamp tax, a regulation fund, and raising funds for the Shenhai thermal power plant, plus an education support fee, and funds to fight drought in support of agriculture. These newly added items cost the Shenhe District Food and Beverage Service Company 300,000 yuan.

Another noteworthy problem is that the impact of state price sale cutbacks was relatively less on those enterprises that provided high quality service and that were well run, as well as those that had provided negotiated price food all along. This situation showed that even though state-owned and collective enterprises were able to insure product quality, a substantial number of enterprises were extremely lacking in the competitive spirit required to pursue development.

(5) The effect on consumers. During the period of cutbacks in state price sales of grain and edible oil, panic buying took place in varying degrees in every jurisdiction in Liaoning Province. Since advance notice of the cutbacks would have been imprudent, and inasmuch as security measures in advance of the cutbacks were not sufficiently strict, many members of the public heard incorrect information. Supposing that prices for grain, oil, and foodstuffs were to be raised again, they engaged

in large scale panic buying of state price grain, oil, and pastries. Because of the fairly huge increase in prices of foods that the public consumed when the supply of grain and oil at state prices was changed to negotiated prices, the public found the prices difficult to accept for a time. This was particularly true in the case of deep-fried twisted dough that people ate every day, which rose in price from 0.70 yuan to 2.20 yuan per jin. Residents who ate deep-fried twisted dough sticks for breakfast were very disgruntled. The Dalian Municipal People's Congress reported this problem to the municipal government several times; however, so long as the negotiated price of wheat flour and soybean oil remained relatively high, it was difficult for the price of deep-fried twisted dough sticks to go down. After prices of deep-fried twisted dough sticks, rice, and steamed bread rose with no corresponding rise in residents' income, the volume of purchases declined markedly. Thus, many people felt their standard of living had been hurt. Some members of the public said that the country stabilized prices this year; there was to be no increase in prices. The government should stick to its word. When it says prices are to rise and they rise, people do not know what to do.

One restaurant in Dalian formerly sold more than 200 jin of deep-fried twisted dough sticks daily, but after the cutbacks in state price sales, its sales volume fell to 40 jin. After a period of time, sales rose again to around 70 jin. Clearly, some of the residents began to adjust and to accept the post cutback prices of deep-fried twisted dough sticks.

(6) Effect on the Peasants. For peasants in rural villages to which the state resold grain and oil, the change from a proportional price to a negotiated price increased living expenses to a certain extent. Among vegetable farmers in suburban areas and peasants on state-owned livestock farms where state price sales of grain and oil were reduced 20 percent, there was not much complaining. For vegetable farmers at the county level and below to whom the state resold grain and oil, once sales of grain at state price were cutback, some vegetable farmers complained quite a bit. From those peasants whose vegetable land was taken over for public facilities, in particular, complaints were very loud. Some vegetable farmers said that all vegetable farmers should be treated the same way. Among the peasants for whom state price sales were reduced, the impact on seed production households was greatest. This was because when the negotiated price of grain that the government resold them became too high, seed production households could make no profit. It was expected that numerous peasant households in this category would change into other lines of work later on. Two natural hamlets located in the Fenghuang mountains of Fengchen County under jurisdiction of Dandong City had always eaten grain resold by the state at state prices ever since the region had been developed as a tourist area. Once sales were changed from state price to negotiated price, the villagers reacted strongly. In view of the real difficulties that the villagers faced, the local government restored the former supply at state prices.

#### Several Problems Requiring Summarization

(1) Were the cutbacks in grain and oil sales at state prices truly necessary? The inversion between purchase and sales price, and the shortage of grain at the state price, which resulted in grain purchased at a negotiated price being sold at the state price, became a heavy drain on both the central government and local government treasuries. Financial subsidies of grain and oil prices during 1989 are predicted to exceed 30 billion yuan, and Liaoning Province's grain and oil subsidies also account for 20 percent of all government expenditures. At the present time, the differential between the list procurement price and the market procurement price is fairly large, and during the next several years there is bound to be a continued rise in the fixed contract procurement price of grain and oil-bearing crops. If the uniform sale price is maintained without change, that will mean continued increase in financial pressure on the government. If this goes on, the accumulated problems will become greater and greater, and the difficulty in solving them will become greater and greater too. In particular, the sale price of grain is too low, a steamed bread selling for between 0.05 and 0.06 yuan, causing extremely great waste. Thus, this problem has developed to the point where it must be solved; it cannot go on any longer. The methods that provinces and regions such as Liaoning used to cutback state price sales, and to collect a grain and edible oil compensation fund demonstrate this point clearly. There are two solutions to this problem, the first of which is cutbacks in grain and oil sales at state prices. This both solves the government financial burden problem, and also solves the problem of where to obtain grain and oil for sale at state prices. The second solution is to raise the grain and oil state sale price, particularly raising uniform sale price for sales to the non-agricultural population, simultaneously providing residents an appropriate subsidy. Until such time as the central government decides to raise the sale price of state price grain and oil, local government restriction of sales is a very positive action.

Analyzed in purely technical terms, the benefits obtainable from increasing the sale price of grain and oil (including grain rations) are better than from restricting state price sales. Not only does it avoid the overly great impact on markets and society caused by the change from state price to negotiated prices in a single step, but it can get hold of more state price grain within economic plan, thereby playing a role in insuring supplies and stabilizing grain market prices. This holds greater significance for a grain-short country such as China. In addition, as the sale price rises, the problem of what to do with large numbers of accumulated grain coupons will be gradually solved. The problem that many places face in gathering a grain compensation fund can also be basically solved. If the central government does not plan to raise the sale price of grain and oil within a short period of time, the only way open to address the government financial burden is to cutback sales of grain and oil at the state price.

(2) Selection of the propitious time to cutback sales. Liaoning Province inaugurated its cutback of a state price sales in November 1989 at a time when prices were fairly stable. In November, the retail price index was 109.1, and the rate of increase in prices had returned to below double digits. This was favorable for the inauguration of the cutbacks. However, the speed of economic growth slowed during this period. Numerous enterprises were in difficulty, and the number of failing enterprises increased greatly; thus, the unfavorable effect of the curtailment of state price sales was prominent. Therefore, before the inauguration, a complete weighing of all factors in the economic environment was necessary in order to reduce insofar as possible negative consequences following the cutback in state price sales. The situation in Liaoning Province showed that during the current period when the national economy is not in good shape, the large scale inauguration of cutbacks in state prices is ill-advised.

(3) Determination of the particulars in sales cutbacks. When Liaoning Province made the cutbacks, it retained state prices for the sale of grain rations to the non-agricultural population, to institutions, to breweries producing non-staple foods, and for city livestock feed. No place other than Benxi reduced sales of grain grown by workers. On the basis of the experience of Liaoning and other provinces and regions in reducing state price sales, retention of sales to breweries making non-staple foods was proper. This was because some products such as soy sauce and vinegar are interwoven with the daily life of residents, and the chain reaction would be considerable. During a period when numerous enterprises were in difficulties, reducing sales of grain grown by workers would have had more disadvantages than advantages. In future cutbacks of state prices, other jurisdictions must deal with this matter prudently. Liaoning Province cut back only 22 percent of its state price sales to the agricultural population. It retained the resale to peasants of 1.8 billion jin of state price grain, mostly to historically grain-short teams and to peasants engaged in the growing of cash crops. Had the supply of grain to historically grain-short teams been changed from the state price to negotiated prices, serious consequences would have been inevitable. Because of the local economic benefit, the government generally maintained the resale of grain at the state price to peasants engaged in the growing of cash crops. This same situation exists in provinces and regions in the southern part of the country where the resale of grain at the state price to cotton, tobacco, and sugar-growing peasants has not been abolished. Inasmuch as the state resells grain to many different categories of people in rural villages, and since there are very great differences between one region and another, when rural villages curtail state price sales, they must continue to uphold the principle of a different policy for different areas.

(4) Commensurate actions taken during cutbacks in state price sales. During the cutbacks, Liaoning Province took some commensurate actions, such as increasing amounts

of grain and edible oil in storage, stabilizing supply channels, insuring grain and oil supply, and strictly controlling the extent of price rises. In addition the government affairs work done were all experiences from which valuable lessons can be learned. Because cutbacks in state price sales affect many areas, government should adopt comprehensive and complete measures to address disadvantageous influences following the cutbacks.

From a long-range point of view, if uniform sale prices continue to be maintained without change, the earlier state price sales of grain and oil are curtailed the better. The longer this is put off, the greater the differential between list and market prices, and the greater the impact following cutbacks in state price sales. However, in view of the fairly grim economic situation in China today, the specific kinds and amounts of cutbacks should not be excessive. Cutbacks of state price sales that produce a substantial adverse effect must be handled with prudence. In addition, cutback plans should take into consideration the effect on the economy of political and social factors.

#### Effects of Drought on Guangxi's Agriculture

90CE0205A Nanning GUANGXI NONGYE KEXUE  
in Chinese No 1, Feb 90 pp 1-4

[Article by Wu Quanyan (0709 0356 5888), Guangxi Agricultural Meteorology Center; and Lan Yongchang (5663 3057 2490) and Huang Xiangxing (7806 7449 2622), Guangxi Meteorological Observatory: "Effects of Drought on Guangxi's Agricultural Production and Remedies For It"]

[Abstract] Although Guangxi receives between 1,100 and 2,800 millimeters of rainfall each year, because of the effects of the monsoon, this rain falls very unevenly. As a result, one part of Guangxi or another suffers from drought 48 percent of the time, and the whole region becomes drought stricken approximately once every 21 years. When spring drought strikes, sowing and transplanting of the early rice crop, and all dry land farming is affected. Summer drought hurts the tasseling and silking of corn, and water is insufficient for the late paddy crop. A fall drought poses substantial dangers for late paddy panicle formation and the coming into milk of the grain. The autumn corn and sugarcane crops are also fairly hard hit.

The most basic means used to fight drought in Guangxi are the building of water conservancy facilities and afforestation, followed by proper choices of crop varieties and farming methods, including the use of hybrids, the use of plastic mulch, and crop rotation. Artificial rainmaking, which increases rainfall by between 10 and 20 percent, supplements these methods.

This tightly organized article details the areas of occurrence of spring, summer, and autumn drought, its effects on crops, and the specifics of coping with it. The article concludes with a call for a planned, comprehensive, scientific study of the drought problem in Guangxi.

## Rising Hog Production, Declining Sales Addressed

### Provinces Report on Hog Situation

90CE0152A Beijing JINGJI CANKAO in Chinese  
12 Apr 90 p 2

[Article: "Sharp Increase in Hog Slaughter Rate, No Improvement in Market Sales, Some Regions Experiencing Prominent Discrepancies Between Hog Production and Marketing"]

Summarizing data from all areas since the beginning of 1990, the number of hogs slaughtered has increased by a large margin in some regions of the country, but market sales have been slow, which has resulted in severe overstocks of pork. The authorities concerned warn that we must take steps to forestall a resurgence of "hog-selling problems."

The situation reported by the Shanghai Agriculture Bureau indicates that in the first half of 1990 the number of hogs slaughtered in the area surrounding Shanghai will increase considerably. Based on various counties' and prefectures' 1989 year-end figures on the quantity of porkers and piglets in stock, it is predicted that in the first two quarters of 1990 up to 2,126,000 hogs may be slaughtered throughout the city, an increase of 408,000 over the same period in 1989.

According to plan, the Shanghai suburbs were to transfer 1,303,500 pigs to the city this year. In 1988, about 800,000 head were transferred to the city during the first half of the year, but in 1990, because the number slaughtered increased, we had no choice but to raise the number transferred into the city to 1.05 million, up 202,000 over the same period in 1989. Although hog output and sales basically balanced out around Shanghai during the first half of the year, if this continues, there will be 250,000 surplus pigs left over above the procurement plan during the last half of the year. Obviously, after July there will be a serious excess of hogs produced above procurement levels, and it is very possible that "hog-selling problems" will appear.

In the near future stockpiles of pork on the Tianjin market will continue to grow, but the sales volume will continue to fall. According to statistics, by the beginning of March, city stockpiles of pork had reached 66,000 tons, enough to satisfy the needs of the 4 million residents for six to seven months.

Our understanding is that at the end of 1989 the state-run food system in Jiangsu had 74,400 tons of frozen pork in stock, a record amount. It is projected that between the last ten days of April and July, 5.5 million hogs will be slaughtered in the province, and during that time 70,000 tons of pork will be stockpiled. Adding the new to the old, pork reserves will reach 140,000 tons.

To reduce pork stockpiles, Jiangsu commercial departments plan to transfer 20,000 tons of pork to other provinces, expand commercial stores of carved meat by

5,000 tons, and process and can 5,000 tons of meat. It is predicted that after April the province will still have 80,000 to 100,000 tons of pork for which there will be no market.

Now prospects for hog production in Jiangsu are bleak. Since December 1990 the number of sows in stock has dropped by 10,000 head per month. As of the end of February, there were only 1.05 million sows remaining, fewer than the 1.10 to 1.15 million normally on hand.

According to statistics compiled by the Shaanxi food sector, at the end of February there were 6.3 million hogs in stock in the province, up 4.4 percent over the same period in 1989. However, because there are overstocks of pork throughout Shaanxi and market sales are slow, it is predicted that in the minor peak period prior to the wheat harvest, discrepancies between hog purchase and sales will become very noticeable.

Surveys indicate that in Shaanxi the number of large hogs weighing 50 kg or above has grown to 1,266,000 head since February, up 14.7 percent over the same time last year. During the second quarter 790,000 hogs may be slaughtered, and there will be no market for approximately 200,000 of them (about 10,000 tons of pork). Right now stockpiles of pork are growing all across Shaanxi. At the end of February commercial reserves were 29,700 tons of pork, up 11.5 percent over the same time in 1989, and equal to 60 percent of total sales for all of last year. Beginning in February the Xi'an market stopped accepting large hogs weighing more than 100 kg. This market is implementing an allocation and transfer program involving only 6,300 head, or 2.5 percent of the 250,000 head slated for 1990, which has delayed the slaughter of a large volume of hogs until the second quarter of the year.

### Measures To Alleviate Problems

90CE0152B Beijing JINGJI RIBAO in Chinese  
11 Apr 90 p 1

[Article by JINGJI RIBAO correspondent Lin Juankai (2651 7165 2818) and reporter Chen Qikan (7115 0796 0000): "Prevent the Occurrence of New Hog-Selling Problems"]

[Text] Live hogs are a major agricultural sideline product in the Chinese countryside, and pork is an important nonstaple food for urban and rural residents alike. In the past few years, hog production has sustained a period of stable growth nationwide. Statistics show that in 1989, under unfavorable circumstances caused by rising grain prices, shortages of fodder, and a declining price parity between hogs and grain, we nevertheless maintained a satisfactory trend of stable growth in hog production. We slaughtered 289 million head of swine in 1989, up five percent over the previous year, and at year's end there were 352 million head still on hand, up 2.9 percent over 1988. There were ample sources of pork, the price

remained relatively stable, and the market supply situation was the best it has been in recent years.

An analysis of the situation in several areas indicates that in 1990 hog production will continue to be stable, and supply and demand for pork will essentially balance out. But it is worth noting that due to the effects of funding shortages and hog sales and allocation blockages in certain major hog-producing areas, pork stocks are growing. The second quarter of the year is a minor peak period for live hog procurement, when hog slaughter and marketing are rather concentrated, but it is also a slack period for pork sales. The discrepancy between high procurement and low sales is fairly pronounced, and in some places "hog-selling problems" may appear. At the same time, we should also realize that some unstable factors persist in certain major hog-producing areas. Primary among these is that the price parity between hogs and grain has declined. In recent months the hog-grain price parity has been only about 1:4 or 1:4.5 in certain prime hog-producing areas of Hebei, Shandong, Henan, Jiangsu, and Shaanxi. In some places the price of piglets has dropped and farmers are continuing to slaughter or castrate and spay hogs. Therefore, we need to pay close attention, take the appropriate steps, and do a good job. We absolutely must not treat this matter lightly.

Now hog production in China is still dominated by thousands of individual households practicing decentralized animal husbandry. Although peasant households practice decentralized swine husbandry and differ widely from specialized hog breeders in their need for fodder and in their stock rearing methods, and although they are somewhat more able than specialized hog breeders to bear higher grain costs, they are also limited in growth potential and produce an unstable volume of commodities. Therefore, to guarantee a relatively stable and reliable source of supplies for the pork market, we must work to integrate this decentralized swine husbandry with specialized hog breeding. At the same time, we need to place our unwavering support behind various hog production policies. Long-standing, effective policies on the link between hogs, fodder grain and fodder fields, as well as on the "use of industry to aid hog production," should not be changed lightly. Because hog production is substantially limited by grain availability, to preserve a reasonable income in peasant households engaged in swine husbandry, we must maintain a reasonable price parity between hog procurement prices and grain prices: generally it would be best to keep parity at 1:5 to 1:5.5. We must also determine the lowest protected price, so as to safeguard initiative among hog farmers.

Controlling pork sales and using sales to promote procurement is the major way of alleviating the second-quarter discrepancy between procurement and sales. The focal point for expanding pork sales is in the countryside. China has a rural population of more than 800 million people, and if each person ate one half jin more pork, this is a considerable quantity of pork. Rural, grass-roots

level food stands operated by state-run businesses should make the best use of existing facilities, both to buy live hogs and to sell pork. The urban business sector, at the same time it guarantees a set volume of supplies, should actively expand negotiated buying and selling, which produces small profits but rapid turnover. Where conditions are right, we should also strive to develop sales of defatted meat and production of highly processed meats and meats packaged in small quantities, to increase production and supplies of processed meat products, and satisfy different levels of consumption demands.

Many years of experience indicate that it is essential to develop a multi-channel approach. If we lack multi-channel circulation, the market will be flat, but if there is no primary channel of state-run business to regulate and control the market, it will be difficult to stabilize the market and curb commodity prices. Therefore, all localities should take advantage of the opportune moment during the second-quarter minor peak season, when hogs go to market, to buy and store more pork. They should take advantage of the role of state-run businesses as "reservoirs," to control market supply and demand during the second half of the year.

#### **Shanxi's Unstable Hog-breeding Industry Discussed**

90CE0225B Taiyuan SHANXI RIBAO in Chinese  
20 Apr 90 p 2

[Article by reporter Han Shuxian (7281 2579 6343):  
"Reasons For and Ways To Deal With the Unstable  
Hog-breeding Industry"]

#### **[Text] A Situation Worth Our Attention**

There has been a province-wide "hog crisis" since the end of 1989. Today, the average purchase price of hogs is around 2.8 to 3 yuan a kilo, and as low as 2 to 2.2 yuan in some counties, which is 0.8 to 1 yuan below last September-October's price.

According to a Taigu County report, piglets weighing 8 kilos which sold for 80 to 100 yuan last year fetch only 15 to 20 yuan today.

Cao Tingchen, a peasant from Lingchuan County's Magedang Village, complained to the news bureau that his 110-kilo pigs which he sold for 286 yuan cost 304 yuan each to raise, costing him 18 yuan a head to sell.

On 8 February, a vice governor commented in SHANXI KUAIXUN [SHANXI EXPRESS] that the government should adopt measures to enforce a protection price and increase purchases.

But on 16 March, this reporter learned from a provincial food company that the sales areas' cold storages were full and that the production areas had stopped delivering live-hogs to the sales area.

According to a JINSHANG XINXI [SHANXI BUSINESS INFORMATION] report, Shanxi has an overstock of 300,000 to 500,000 hogs. If they cannot be slaughtered in time, it will be inevitable that live-hog production will slip.

### What Is the Problem?

There are many reasons for this price fluctuation.

Since the founding of the PRC, except from 1949 to the end of 1959 when Shanxi's livestock inventory rose sharply, there has been one fluctuation every four to five years. When hogs were scarce, people would "go all out to raise pigs," and when hogs were in abundance, these "gods of fortune" became a burden. In the last 30 to 40 years, we have been trapped in a "strange cycle" of ups and downs.

In the 1980's, Shanxi's hog-breeding industry grew rapidly. From 1981 to 1984, the province shipped out a total of 1.434 million head. But from the time the live-hog business was decontrolled in 1985 until the end of 1989, Shanxi has brought in 2.45 million hogs.

No doubt, the decontrol of hog prices plays an important role, but there are other unforeseen circumstances.

First, with the emergence of individual butchers, the food department which used to be the "main channel" for buying and selling hogs began to see its business dwindle. In 1984, the state-run food companies bought 85 percent of all hogs slaughtered. Last year, they bought 23.6 percent. Because of higher interest on loans and higher shipping and storage costs and so on, the state-run companies which are caught between protecting consumer and producer interests incurred a net loss of 81.92 million yuan in 1989, 20.74 million yuan more than in 1988 and 44.78 million yuan more than in 1984. Up to the end of 1989, various prefectural, city, and county governments still owed as much as 22.75 million yuan in back subsidies which had accumulated over several years. Today, of the more than 600 food purchase and sale stations in the province, 70 percent are semi-defunct; some have simply disappeared.

Conversely, individual butchers take advantage of their superior position, and "with a bicycle and a scale, they set up businesses everywhere." Some of them cheat on their taxes, some tamper with their scales, and some cheat their customers on quality and prices. According to the Shanxi Tax Bureau and the provincial Bureau of Industry and Commerce, during the first three quarters, individual hog businesses paid 1.289 million yuan in taxes, and 704,000 live-hogs were bought and sold in the market, an average of 1.77 yuan in tax was paid for each hog. Meanwhile, the state-run food department paid 23 yuan in taxes for every hog bought and sold. Obviously, this is not fair competition.

Second, when the sales areas buy live-hogs from the production areas within Shanxi, each ton of plain pork strips costs 5,200 yuan; but the per ton price delivered

from outside the province is only 4,100 yuan. Last year, Shanxi was supposed to transfer in 172,000 hogs according to plan but actually transferred in 496,000 head from various localities. As a result, freezers are full. According to figures collected in Taiyuan, Datong, and Yangchuan, there is enough meat in the freezers for everyone in those three major cities to last until National Day.

The central government has stipulated a 300 yuan per ton subsidy and 150 yuan grant to pay for the feed price differential when meat is transferred from the production to the sales area. Shanxi transferred in a huge amount of meat, which the central government subsidized. The low price curtailed sale of local "black gods of fortune" and prompted the massive transferring out of locally-bred hogs.

Shanxi always produces a bumper autumn grain crop, and we are well-established in hog production. How did the frozen meat from the other provinces manage to corner our market?

Since the hog business was decontrolled, the incentive sale policy of other provinces has been stabilized. In Shanxi, however, except for the supply of 150 kilos of feed at parity price for each boar or sow, all other preferential policies have basically been abolished. The state-run food department has lost interest in hog-breeders; annual hog purchases plummeted from 968,000 head to 330,000 head.

Looking at the feed supply situation, 30 million kilos of feed were obtained for the province's 200,000 boars and sows in 1987. Last year, there were 365,800 sows in stock, but there was no significant increase in feed supply. Liang Zuoyi, a peasant from Wenshui County's Boyou Village, wrote to this newspaper recently asking about the supply of parity price feed, or lack of it, for his village's 50 heads of sows. Perhaps one reason is that there are more hogs than there is feed to go around.

True, in an effort to stabilize hog production after decontrol, the state tried to set a purchase protection price based on the hog to grain ratio of 1.5 to 1.55. But according to the livestock department's estimate, even with the protection price, after all the hard work, the peasants make only 50 yuan on each hog. There is no room for optimism with this kind of disadvantage. The purchasing department's financial resources are limited. It can neither enforce the protection price nor increase purchases.

### There Are Solutions

Reportedly, the nation's per capita pork consumption is 18.2 kilos; in Shanxi, the average is only 6 kilos. Obviously, there is potential in the pork market here.

After decontrol of the hog business, some localities in Shanxi kept the "microclimate," such as "using industry to supplement hog-breeding"—taking part of the collective industries' and sideline productions' income to

subsidize the feed price differential paid by hog-breeders; or "using fertilizers to supplement hogs"—giving the limited amount of chemical fertilizers produced in large chemical plants to the hog-breeders as a subsidy to be used on feed production; or "using undeveloped land to supplement hog-breeding"—contracting out some arable but yet undeveloped land to the peasants to grow concentrated feed and coarse fodder. All these methods should be promoted in localities with the right conditions.

As for losses caused by government policies which should be compensated, governments at all levels should implement a policy of awarding more subsidies for more sales to the management units for the portion of goods they have to buy at a higher price than they can sell. Subsidies should be paid promptly and without delay.

The interest rate on loans for agricultural and sideline product purchases is 4.7 percent, but food departments pay 9.45 percent for hog purchases. If it pays the same interest as others pay for agricultural and sideline product purchase loans, perhaps its operating loss can be reduced.

Although freezers in sales areas are stuffed, there is room for 600,000 head of hogs in the freezers in production areas. This year, the food department plans to consign approximately 200,000 heads of hogs to the production areas for storage. What is urgently needed is the 6 million yuan storage fee which the relevant departments must come up with soon.

The transfer in of pork from other provinces must be put under tight control. The provincial Agricultural and Livestock Department and food companies have decided in principle not to transfer in any more pork this year. A regulation fee should be imposed on units which transfer in pork on their own. However, since food departments in different localities are eating out of separate pots, the provincial food companies can do little to control their subordinates' behaviors. If all the policy-mandated losses can be gathered for use, a leading comrade of a provincial food company said with confidence that loss can be reduced by 10 million yuan, which can be used to buy the peasants' hogs at the protection price.

As for the individual butchers, besides protecting their legitimate business and giving play to their vitality, we must ban all unlicensed operations to ensure that people get rich by legal means; decontrol should not mean abandon. All areas should consider adopting the method of "having designated slaughterhouses, conducting inspections at a centralized location, levying a unified tax, controlling the wholesalers, and decontrolling the retailers" now practiced in 23 counties (cities) including Yuci, Gaoping, and Zhangzi.

Xu Fangxiang, a specialized hog-breeding household in Qingxu County's Xugou Township, has been subscribing to SHANXI NONGMIN, SHANXI KEJI BAO, XUMU and other publications for the last five years to learn

more about scientific hog-breeding techniques, mixing feed, and improve hog-breeding methods. Last year, he slaughtered 250 hogs and made a net profit of 15,000 yuan. When Wang Xuming, another peasant from this township, sold his 17 porkers, he earned 30 to 40 yuan per head above the average price. Clearly, the day traditional hog-breeding methods change is the day hog-breeding becomes a profitable industry.

### Excess Urban Grain Rations Create Waste in Shaanxi

90CE0203A Xian SHAANXI RIBAO in Chinese  
18 Apr 90 p 2

[Article by Chen Xiaoping (7115 1420 1627): "On Shaanxi Province's Excess Urban Grain Rations"]

[Text] The standards for urban grain rations in the PRC were set 35 years ago in 1955. Along with social developments and improvements in living standards, great changes have occurred in our people's eating habits, with their direct consumption of edible grain decreasing, and their meat, poultry, egg, and milk consumption increasing. Shaanxi's grain consumption averaged 146.76 kg per capita in 1988, 33.24 kg less than the average standard ration. Shaanxi urban residents now have about 700 million kg of excess grain quotas on their grain purchase books and stockpiled grain coupons on hand; moreover, this figure is steadily increasing as time goes by. This huge excess of grain ration quotas that are in people's hands, are a constant threat to the work of grain departments in supplying grain to urban areas. For instance, when Xian changed its supply of industrial production grain to negotiated prices between August and September 1988, its careless propaganda work aroused misgivings among the people, who mistakenly thought that their excess grain quotas on their grain purchase books and their grain coupons were going to be invalidated. Thus, a wave of grain panic buying occurred throughout Shaanxi, in which 2.5 million kg of grain were sold in five days.

As grain is sold at both fixed and negotiated prices, grain coupons have actually become negotiable securities, which can be traded on free markets for everything from eggs to articles of everyday use. In the last two years in particular, large-scale speculation and trafficking in grain coupons by lawless elements has become rampant. Some self-employed food and drink managers and vendors use grain coupons that they have bought to illegally buy up fixed-price grain, which they then process into food and resell at negotiated prices, while other speculators take fixed-price grain that they have illegally bought up and resell it directly at negotiated prices, to gain exorbitant profits. These illegal acts have disrupted state grain markets, increased the state's turnover of fixed-price grain, and added to the state's financial burdens. The state now has to subsidize its supply of grain to urban residents at 0.55 yuan per kg, and its financial subsidies for grain and edible oil topped 30 billion yuan



in 1989. Excess grain rations are flowing into the "circulation field" of illegal trade, so what use is it for the state to supply people with fixed-price, subsidized grain!

The flow of grain coupons into this illegal "field of circulation" has increased the number of grain coupon cases. In 1988, coupons for 110,000 kg of grain were stolen at one time from the Mengyuan Grain Supply Center in Huayin County. Nationally-interchangeable, counterfeit grain coupons were discovered in 1989 in Shaanxi prefectures and cities, such as Xian, Xianyang, Baoji, and Weinan.

The large excess accumulation of grain coupons and grain quotas on grain purchase books, as well as the policy of supplying grain at low, fixed prices, have become objective causes of extra grain consumption and waste. Our traditional sense of treasuring and economizing on grain, in which "everyone knows how much hard work goes into each grain of food on their plates," has become a very hazy concept. For instance, due to poor management of grain in a school dining room in Xian, over 1,200 kg of flour went bad from mildew, rot, insect, and rat damage. How could this not distress us!

The excess accumulation of urban grain ration quotas and grain coupons, is not only a major problem in our regular economic life, but is also a key factor affecting the interests of tens of thousands of families and the stability of our markets. Instead of depending on grain departments alone to resolve this issue, we should instead arouse our vast numbers of urban residents to make suggestions and offer advice, and rely on the wisdom and strength of the masses to solve the problem.

### 5-Year Grain Production Slump Attributed to Peasant Apathy

90CE0114A Beijing ZHONGGUO NONGCUN JINGJI in Chinese No 3, 20 Mar 90 pp 16-24

[Article by Sun Zhonghua (1327 0022 5478), Rural Survey Office, Rural Development Research Center, State Council: "A Glimpse of Grain Production From

### 1984 To 1988—A Survey of the Grain Output of 13,000 Peasant Households in 155 Villages"]

[Text] After total national grain output continued to decline 6.9 percent between 1984 and 1985, it remained at a standstill for several years in a row, and even now no marked upturn is visible. Grain output has become a hot issue that people are concerned about. To understand the factors contributing to the consecutive year standstill, and find new ways to advance, a survey, evaluation, and analysis of grain production as a whole, and the economic behavior of peasant households is needed. It was for this purpose that the former Rural Policy Research Office and the Rural Development Research Center of the State Council, in conjunction with rural work departments in 29 provinces, autonomous regions (not including Tibet), and directly administered municipalities, conducted a systematic survey of grain production by 13,000 peasant households in 155 rural villages between 1984 and 1988.

### 1. Various Features of the Standstill in Grain Production

#### (1) Matching the Trend Throughout China, Gross Output of Grain in the Villages Surveyed Has Not Revived to the 1984 Level

The 155 rural villages surveyed set an all-time record in total grain production in 1984. In 1985, grain output plummeted, and although it has risen during the past 3 years, it has still not revived to the 1984 level. Taking total 1984 grain output as 100, the indices for total grain output between 1985 and 1988 in the surveyed villages were 78.7, 80.7, and 91.6 respectively.

A breakdown of data using average figures shows that in 61.2 percent of the 155 villages, gross output of grain in 1988 reached the 1984 level, including 41.9 percent having a 10 percent or more rate of decline; 38.8 percent of the villages exceeding the 1984 level, including 23.3 percent having a 10 percent or more rate of increase. (See Table 1 for details.)

Table 1. Breakdown of Total Grain Output Indices for 1988 in Villages Surveyed (1984 = 100)

Index	80 and below	80-90	90-100	100-110	110-120	120 and above
Individual Villages	30	35	30	24	17	19
Percent of Villages	9.3	22.6	19.3	15.5	11.0	12.3

#### (2) Various Differences in the Standstill in Grain Output Exhibited in Different Kinds of Villages Surveyed

In terms of topography, the extent of decrease in output was greatest in plains villages at 9.3 percent (gross output of grain in 1988 compared with 1984, and the same applies hereinafter); next was hill region villages with a 7.6 percent decline; and finally was mountain region villages with a 7.2 percent decline.

The degree of decline in nonpaddyfield area villages in the south was greater than in paddyfield area fields in the south, output declining 10.3 percent in the former, and 6.1 percent in the latter.

The decline was particularly great in villages where yield per unit of area base figures had been high. In 20 villages in which output declined 20 percent or more, yields reached 493 kilograms per mu in 1984, 227 kilograms

per mu higher than in 125 other villages, and even in 1988, yields were still 77 kilograms per mu higher in the former than in the latter.

*Decline in Yields Was a Direct Factor Leading to the Slide in Grain Output*

Factors directly affecting gross grain output were the area sown and yields per unit of area. This article employs the factor analysis method to calculate the year-by-year effect on gross grain output of the two factors (taking 1984 as the base year). Results of the calculations are shown in Table 2.

**Table 2. Extent of Effect on Gross Output of Changes in Area Sown and Yields Per Unit of Area**

Year	Decline in Gross Output From 1984 (%)	Decline Resulting From Area Sown		Decline Resulting from Yield	
		Decline in Gross Output (%)	Degree of Effect (%)	Decline in Gross Output (%)	Degree of Effect (%)
1985	21.3	3.2	14.8	18.1	85.2
1986	19.3	3.1	15.8	16.2	84.2
1987	18.2	0.6	3.5	17.6	96.5
1988	8.4	3.9	47.8	4.5	52.2

The figures in the table show that the decline in yields for each of the 4 years, except 1988, was the main reason for the reduction in gross output of grain, its effect amounting to more than 80 percent. Reduction in the area sown took second place, its effect amounting to less than 20 percent. This situation continued until 1988 when it changed because of the substantial revival in yields per unit of area, but the effect of yields was still 4.4 percentage points greater than the effect of area sown.

*(4) Decline in Overall Grain Output Capacity*

The standstill in grain output actually resulted from a decline in overall grain output capacity, including peasant interest in production. In this survey, five indicators were used to measure overall grain output capacity. The results showed that since 1985, except for the single indicator of use of superior varieties, most villages showed either a trend toward decline or no change in the other four indicators, namely soil fertility, water conservancy facilities and drainage and irrigation capabilities, the degree of mechanized farming, and peasant interest in growing grain. Details are given in Table 3.

**Table 3. Changes in Overall Grain Output Capacity of Villages Surveyed**

Indicator	Marked Decline (%)	Some Decline (%)	No Change (%)	Some Rise (%)	Marked Rise (%)
Soil Fertility	4.5	38.7	18.1	32.9	5.8
Water Conservancy Facilities and Drainage and Irrigation Capabilities	9.9	23.2	35.1	24.5	7.3
Use of Superior Varieties	1.3	5.2	14.8	42.6	36.1
Degree of Mechanized Farming	12.6	13.9	39.1	26.5	7.9
Peasant Interest in Production	14.2	35.5	20.0	26.5	3.8

*(5) Coexistence of a Standstill in Grain Output and Sustained Rise in the Rural Economy and Peasant Income*

Despite the standstill in grain output for four years in the villages surveyed, forestry, animal husbandry, the fishing industry, and nonagricultural industries continued to grow by leaps and bounds, and the peasants' standard of living continued to improve. In 1988, per capita gross income for all trades in every village was 1.06 times higher than in 1984, including a 1.2-fold increase in income from forestry, animal husbandry, and the fishing industry, and a 1.9-fold increase in nonagricultural income. The per capita net income of households surveyed was 765.69 yuan in 1988, up 332.80 yuan from 1984 in a 78.5 percent increase.

**2. Analysis of Economic Returns From Grain Production and Peasant Investment**

*(1) Poor Returns From Grain Production*

Without doubt, changes in economic returns directly affected peasant grain production. In the search for factors contributing to the standstill in grain output, an analysis must be made of peasant household returns from grain production for the past four years, i.e., changes in the input-output relationship. The indicator for economic return from grain production has two parts. The first is input, i.e., the land, capital, and labor used in grain production. The second is income from grain and grain by-products. Changes in grain production inputs and outputs and their effect for every household surveyed in 1984 and 1988 are shown in Table 4.

**Table 4. Table Showing Changes in Grain Production Returns in Surveyed Households (Average)**

Indicator	1984	1988	Absolute Increase or Decrease (+,-)	Relative Increase or Decrease (+,-)
Area Sown (mu)	11.15	10.08	-1.07	-9.6%
Total Grain Output (kgs)	2,942	2,790	-152	-5.2%
Production Costs (yuan)	349.19	421.52	+72.32	+20.7%
Including: Cash Costs (yuan)	213.83	290.76	+76.93	+36%
Work Days	239	212	-27	-11.6%
Income from Grain and Grain By-products (yuan)	1,109.9	1,198	+89.2	+8%
Including: Sales Income (yuan)	380.27	454.02	+73.75	+19.4%
Net Income Per Mu (yuan)	68.74	77.03	+8.29	+12.1%
Net Income Per Yuan Expenditure (yuan)	2.18	1.84	-0.34	-15.6%
Net income Per Work Day (yuan)	3.18	3.66	+0.48	+15.1%

Table 4 shows net income (income from products less production costs) per unit of land, capital, and labor devoted to grain production by the households surveyed in 1984 and 1988. Net income realized per yuan of expenditure shows a 15.6 percent decline between 1984 and 1988, and a 12.1 and 15.1 percent rise respectively in net income per mu and net income per workday.

How are changes in returns from grain production to be regarded?

First, further analysis of the increase in returns from land and labor is required. First of all, the main reason for the rise in returns from land and labor lay not in an increase in output, i.e., net income, but rather in a reduction in the amount of input (a 1.07 mu reduction in area sown, and a 27 day reduction in the number of workdays). Had the same level of inputs of 1984 been maintained in 1988, the increase in returns from the soil and from labor would have been miniscule. Second, the land and labor inputs appeared in material form (area and workdays), and not in the form of a conversion of value. If returns were calculated by converting land and labor into the form of value, the conclusion reached would not necessarily be like this. Take labor, for example. In 1984, the per capita cost of a workday (a family's living expenses for a whole year divided by a family's total amount of labor in all trades for the year) was 2.96 yuan. By 1988, it had increased to 4.39 yuan. At this rate, net income from grain production per yuan of human labor was 1.07 yuan in 1984, but 0.83 yuan in 1988 for a 22.4 percent decline in return on labor.

(Because of the lack of a uniform method for converting the value of land today, no such conversion is made here).

In addition, since the position of capital is decisive in peasant family production, of the three elements of land, capital, and labor that serve as returns indicators it is the return on capital that plays the main role. This not only directly influences the peasant's investment of capital, but also affects the investment of land and labor. In analyzing changes in economic returns from grain production itself, most important is to look at changes in returns from capital. In 1988, grain production expenses per household were 20.7 percent higher than in 1984, yet income obtained from grain products increased only 8 percent. Net income per yuan of costs declined from 2.18 to 1.84 yuan in a 15.6 percent decline. Cash receipts and expenditures, which have the greatest effect on peasant production and standard of living were markedly uneconomic in grain production. Cash expenses per peasant household for grain production in 1988 increased 76.93 yuan over 1984, but cash returns increased only 73.75 yuan. Each yuan of cash input did not produce a corresponding yuan of cash output.

The above analysis shows a marked decline in peasant household economic returns from growing grain, particularly cash returns. No doubt, this was a fundamental reason for the standstill in grain production.

## (2) Decline in Relative Returns From Grain Production

With the development of a rural commodity economy, convertibility between one trade and another of the main elements of production of peasant land, capital, and labor increased. Thus, it was not only changes in returns from grain production alone that affected peasant grain production, but the effect of changes in relative benefits from grain production and nongrain production also played an increasingly great role. Changes in relative returns from the growing of grain crops versus cash crops, forestry, animal husbandry, and the fishing industry, and nonagricultural trades for 1988 as compared with 1984 are shown in Table 5.

**Table 5. Changes in Returns From Production In All Occupations In Households Surveyed (Household Average)**

Indicator	1984	1988	Absolute Increase or Decrease (+,-)	Relative Increase or Decrease (+,-)
Grain Crops:				
Net Income Per Mu Planted	68.74	77.03	+8.29	+12.1%
Net Income Per Yuan Expense	2.18	1.84	-0.34	-15.6%
Net Income Per Workday	3.18	3.66	+0.48	+15.1%
Cash Crops				

**Table 5. Changes in Returns From Production In All Occupations In Households Surveyed (Household Average) (Continued)**

Indicator	1984	1988	Absolute Increase or Decrease (+,-)	Relative Increase or Decrease (+,-)
Net Income Per Mu Planted	57.72	180.84	+123.12	+2.13 fold
Net Income Per Yuan Expense	0.71	1.92	+1.21	1.71 fold
Net Income Per Workday	3.38	6.64	+3.26	+96.5%
Forestry, Animal Husbandry and Fishing Industry:				
Net Income Per Yuan Expense	0.89	0.98	+0.09	+10.1%
Net Income Per Workday	2.24	3.89	+1.65	+73.8%
Nonagricultural Industries:				
Net Income Per Yuan Expenses	1.57	1.47	-0.1	-6.4%
Net Income Per Workday	2.62	3.82	+1.2	+45.9%

The statistical data in Table 5 show a marked widening of the gap between relative returns from grain production versus cash crops, forestry, animal husbandry and the fishing industry, and from nonagricultural industries, grain production occupying a markedly unfavorable position.

In terms of net income per mu, the return from grain crops increased only 12.1 percent, while the return from cash crops increased 2.13-fold. In 1988, the net income

received from the planting of 2.3 mu of grain crops was equal only to that from the growing 1 mu of cash crops.

In terms of net income per yuan cost, returns from the growing of grain crops declined 15.6 percent, while returns from the growing of cash crops, and from forestry, animal husbandry, and the fishing industry increased 1.7-fold and 10.1 percent respectively.

In terms of net income per workday, the return on grain crops increased 15.1 percent, while the return from the growing of cash crops, from forestry, animal husbandry and the fishing industry, and from nonagricultural industries increased 96.5, 73.8 and 45.9 percent respectively.

### *(3) Changes in Peasant Motivation For and Investment in Grain Farming Prompted by Dual Returns*

When returns from grain production per se are declining, and relative returns are increasingly disadvantageous, peasant motivation for growing grain and for making inputs into it, when they hold a position of independence as fledgling commodity producers and when the maximization of returns is their primary goal in working, are undergoing concomitant change, as is the position of grain growing among all family occupations.

1. The motivation for grain production is increasingly tending toward satisfaction of one's own family's grain needs. Interest in producing grain to sell is waning.

In 1984, the cash income of 49.6 percent of the peasant households surveyed derived primarily from the sale of grain, but in 1988, the number declined to 37.5 percent in a 12.1 percentage point decline. The present survey, which was conducted in the form of a questionnaire, asked the peasant households their present motivation in growing grain. The percentage of households who responded with "to satisfy my own family's grain needs" in first place was 82.6 percent. See Table 6.

**Table 6. Present Goal in Growing Grain of Surveyed Households**

Indicator	First Position	Second Position	Third Position	Cumulative Frequency	Ranking
To satisfy own family's needs	82.6	15.3	1.7	99.6	1
To fulfill state-set purchase quotas	14.9	59.7	12.2	86.8	2
For market sale	0.6	2.8	16.7	20.1	5
To satisfy own family's need for livestock feed grain	0.8	17.9	48.3	67.0	3
To provide superior varieties	0.2	0.5	1.7	2.4	6
To keep contract land	0.9	3.5	17.3	21.7	4
Other	0	0.3	2.1	2.4	6
Total	100.0	100.0	100.0	300.00	-

Even though the growing of grain was not economically profitable, virtually every household relied on growing its own grain rather than market exchange to satisfy its own grain needs, particularly its own grain ration needs. In 1988, 96.1 percent of peasant households in the villages surveyed grew grain, which was only a 1.1

percentage point decline from 1984. Even peasant households that had turned to other primary occupations did not give up grain farming. A popular saying in rural villages goes like this: "It is not good not to grow grain, and it is also not good to grow much grain; growing enough to eat is good." An increasing number of peasant

households no longer pin hopes for improving their livelihood on growing and selling grain, but rather on growing other than grain, or on occupations outside agriculture.

2. Increasingly inputs of both inanimate and animate labor are going into other than grain farming, and inputs into the production of grain are decreasing.

Comparison of 1988 with 1984 shows varying degrees of decline in inputs of land, capital, and labor in grain production by every household surveyed:

Reduction in grain crop area. The per household area planted to grain crops decreased from 11.15 to 10.08 mu, or 1.07 mu less in a 9.6 percent decline. The grain crop areas as a percentage of the total farm crop area decreased from 82.1 to 80.4 percent.

With the exception of chemical fertilizer, the use of which remained level, use of all other industrial goods used in agriculture declined. Per household use of chemical fertilizer (actual quantity) in grain crop production declined from 388 to 387 kilograms (the amount of urea increasing from 77 to 85 kilograms); use of powdered pesticides decreased from 3.9 to 2.2 kilograms in a 42.76 percent decline; liquid pesticide use declined from 2.4 to 2 kilograms in a 17.2 percent decline, and use of plastic mulch declined from 2.1 to 1.4 kilograms in a 32.5 percent decline.

Application of farmyard manure declined. The peasant household questionnaire survey showed peasant households that had reduced the use of farmyard manure as numbering 32 percent of all household surveyed.

Reduction in labor input. The number of workdays per household spent on grain production declined from 239 to 212, 27 hours less in an 11.6 percent decline.

By comparison with the decline in grain production inputs, inputs into cash crops, forestry, animal husbandry and the fishing industry, and into nonagricultural occupations showed different degrees of increase.

Increase in cash crop growing area. The cash crop growing area increased from 1.65 to 1.76 mu per household, up 6.9 percent. Cash crops as a percentage of total crop area rose from 12.2 to 14 percent in a 1.8 percentage point increase.

Increase in capital. Per household expenditures for cash crops, for forestry, animal husbandry and the fishing industry, and for nonagricultural production increased 34.14, 224.90, and 282.96 yuan respectively in a respective 17.5 percent, 69.6 percent, and 1.58-fold increase, while grain crop production outlays increased only 72.33 yuan, up 20.7 percent. Among the total increase in production expenses, the increase for nongrain crops was 88.2 percent, and only 11.8 percent for grain crops. Expenditures for fixed assets used in grain production declined 2.2 percent, and expenditures for fixed assets used in nongrain production increased 1.02-fold.

Increase in work input. The number of workdays per household put into cash crops, into forestry, animal husbandry and the fishing industry, and into nonagricultural industries increased by 25, 10 and 70 days respectively in a 60.7, 7.9, and 65.6 percent increase.

3. The position of grain production among family production in all industries declined. This was manifested as follows:

Decline as a percentage of family income from all occupations. Income from grain crops declined from 44.1 to 29.2 percent in a 14.9 percentage point decline.

Decline as a percentage of family production expenditures for all occupations. Expenditures for grain crop production declined from 33.3 to 25.3 percent in an 8 percentage point decline.

Decline as a percentage of the amount of family work input into all occupations. The amount of work put into grain production declined from 46.4 to 35.7 percent in a 10.7 percentage point decline.

The aforementioned changes during the past four years in peasant motivation for and inputs into growing grain, as well as in the position of grain production are an inevitable peasant reaction against the lack of a fair economic environment in grain production. As the rural economy moves toward a commodity economy, the production of meat, fish, poultry eggs and such agricultural by-products, as well as the output of nonagricultural industries have taken the lead in gaining the attributes of commodities, basically becoming commodity economy-type industries that have developed by leaps and bounds. However, grain production lags greatly. In terms of both the market environment and developmental opportunities, grain production is in an inequitable position. Following implementation of the "two track system" of fixed contract procurement and negotiated procurement in 1985, some grain entered markets to take on the attributes of commodities, but this was relatively incomplete, and it was frequently restrained by jurisdictions blockading of grain shipments and monopolization of grain transactions, becoming passive in market competition. This was manifested primarily in the following ways:

Too low a state procurement price for a widening of the gap between procurement price and market price. Unlike agricultural by-products such as meat, fish, and poultry eggs, and nonagricultural products, the purchase price of grain was regulated and controlled by state plan. Despite a rise in state procurement prices in recent years, the gap with market price continued to widen. The overall price (including negotiated price) of grain that surveyed households sold the state rose from 18.27 yuan to 23.99 yuan per 50 kilograms between 1984 and 1988 in a 31.3 percent increase. The market price rose from 23.56 to 35.87 yuan in a 52.2 percent rise. The difference between the market price and the state procurement price for 50 kilograms of grain widened from 5.29 yuan to 11.88 yuan. On the basis of the amount of grain that surveyed

households sold the state in 1988, this amounted to 150.39 yuan less income per household.

Heavy fixed contract procurement quotas, and no give in negotiated price dealings. The original intention in instituting the "double track system" was to protect the interests of the grain growing peasants, to increase effective supply of grain, and to make grain become more of a commodity, but in the process of implementation, growth of the grain market was inhibited to a certain extent. Fixed contract procurement quotas were set on the basis of the 1984 market during the "difficulty selling grain," when base figures were overly large. After a shortage of grain impended, in particular, every jurisdiction resorted to blockading outshipments and the monopolization of grain transactions, the "give part" not having any give, grain growing peasants' interests suffering. Surveyed households actual 1988 sales to the state through fixed grain procurement accounted for as much as 64.9 percent of total grain sales for the year; grain sold through negotiated procurement accounted for 12.8 percent. Only 22.3 percent of grain was sold through country fair trade.

Loss of control over materials used in agriculture, the degree of increase in their prices being greater than the degree of increase in grain prices. Comparison of 1988 with 1984 showed a respective 46.8 percent, 37.1 percent, 41.5 percent, 1.45 fold, 1.06 fold, and 1.22 fold increase in the prices of urea, ammonium carbonate, compound fertilizer, powdered insecticides, liquid insecticides, and plastic film, vastly higher than the degree of increase in state grain procurement prices. A rural cadre questionnaire survey showed 77.4 percent of rural cadres as believing that "low grain prices and high costs" were the main reasons for the damage to grain production in recent years.

### 3. Effect on Grain Output of Internal Rural Factors

The decline in both personal returns and relative returns from grain production is, without doubt, a fundamental reason for the standstill in grain production during the past several years, but it is not the sole reason. Within rural villages, various shortcomings in the land system and the two-tier farming system have an adverse effect on grain output that cannot be ignored.

#### (1) The Land System

Implementation of the family land contracting system may be regarded as a major change in the land system that greatly stirred peasant interest in production. However, as the rural commodity economy developed, its hidden contradictions gradually came to light.

##### 1. Fields Broken Into Too Small Plots

The average 9.1 mu of cultivated land per household that surveyed households farmed was broken up into nine separate plots. This situation came about as a result of the early implementation of the family output-related contract responsibility system. According to the survey, when 76.5 percent of villages instituted "large scale contracting," peasants contracted a mix of good, medium, and poor land. As population and the number of households receiving a share of land increased and the amount of cultivated land per household decreased, the plots became smaller and smaller. Since 1984, the average area of each plot of cultivated land has gone from 1.1 to 1.01 mu. The broken up plots interspersed among each other made farming and the provision of collective services difficult. Unless action is taken, the steady cutting up of plots will continue.

2. Changes in keeping with population and corresponding readjustment or even re-drawing of land boundaries shook peasant household confidence in making long-term inputs.

The survey showed that since implementation of "large scale contracting", approximately 65.2 percent of rural villages readjusted the contracted land, 76.7 percent of the land being readjusted once, 18.4 percent of it readjusted twice, and 4.3 percent of it readjusted three or more times. The reasons for these readjustments in 91.3 percent of villages was to meet the need for land as population increased. As population changes caused corresponding readjustments of the contracted land, even though such readjustments eased for a time the conflict between people and the land, they also occasioned new problems: The interest of peasant households in making long-term inputs and in nurturing soil fertility was damaged, and it abetted the practice of simply farming the soil but not nurturing the soil. Statistics show that in villages where readjustments had been made in contracted land, grain output was 9.4 percent less in 1988 than in 1984. In villages where no readjustments occurred, the decline was 6.1 percent, the former 3.3 percentage points higher than the latter.

3. Most importantly, as nonagricultural employment and income increased, some peasants' interest in farming declined, but they did not give up their land. Instead they farmed it nonintensively.

As rural nonagricultural employment opportunities increased, an increasing number of peasant households no longer regarded farming as their main way of making a living. Nonagricultural earnings became the main source of family income. Statistics on the main occupation of surveyed households showed the percentage of all households surveyed for which grain production was the main occupation declined from 79.5 percent in 1984 to 62.9 percent in 1988 in a 16.6 percentage point decline. See Table 7.

**Table 7. Main Occupations of Surveyed Households (%)**

Indicator	1984	1988	1988 vs 1984 Increase (+) or Decrease (-)
Grain Crops	79.5	62.9	-16.6
Cash Crops	5.4	5.8	+0.4
Other Crops	0.3	0.9	+0.6
Mulberry, Tea, Fruit	0.3	1.7	+1.4
Animal Husbandry	4.0	9.2	+5.2
Forestry	0.4	0.7	+0.3
Fishing Industry	0.9	0.8	-0.1
Nonagricultural Industries	7.5	13.3	+5.8
Other	1.7	4.7	+3.0
Total	100	100.0	—

Peasants whose main occupation was other than grain production reduced their inputs and farmed nonintensively to one degree or another inasmuch as their goal in growing grain was to satisfy their families need for grain rather than to derive maximum yields. Statistics showed that in peasant households in which income from grain crops accounted for 40 percent or less of family income from all occupations, expenditures for inputs into grain production during 1988 were 21 yuan less than in 1984, whereas such expenditures increased 91 yuan for peasant households in which income from grain crops accounted for 60 percent or more of family income. In the former, grain output in 1988 was 8.9 percent less than in 1984; in the latter, the reduction was only 2.5 percent, the decrease being 6.4 percentage points greater in the former than in the latter. In addition, the rural cadre questionnaire survey showed that in most cases yields per unit of area of peasant households in which the main occupation was other than grain production were in the intermediate to low range for the village as a whole, whereas the reverse was true for peasant households in which grain production was the main occupation. See Table 8.

**Table 8. 1988 Level of Grain Yields For All Categories of Households Surveyed (%)**

Indicator	Top Rank	Middle Rank	Low Rank	Total
Households Mainly Engaged in Grain Production	48.5	44.6	6.9	100
Households Doing Some Grain Farming; Mostly Engaged in Cash Crop Production	23.7	71.1	5.2	100.0

**Table 8. 1988 Level of Grain Yields For All Categories of Households Surveyed (%) (Continued)**

Indicator	Top Rank	Middle Rank	Low Rank	Total
Households Doing Some Grain Farming; Mostly Engaged in Forestry, Animal Husbandry, or Fishing Industry Production	36.3	52.7	11.0	100
Households Doing Some Grain Farming; Mostly Engaged in Nonagricultural Occupations	18.5	39.5	42.0	100

Although farming is not so important for the peasant households doing some grain farming in Table 8, most of them do not want to give up the land they contract. Of 3,366 households surveyed in which income from grain farming accounted for 20 percent or less of family income from all occupations, when asked whether they were willing to turn over their contracted land to the collective or to allow others to farm it, 87.9 percent of households said they were unwilling, 7.6 percent of households were undecided, and only 4.5 percent expressed willingness. Even were they to turn it over to others for compensation, as for example to the collective or to a household for a grain ration at fixed price, 68 percent of the households still said they were unwilling.

The reason for this situation is, no doubt, the high risk and the uncertain income in nonagricultural occupations, but a more important reason is the imperfection of the land contracting system. First, the status of land as a commodity is murky. It can be used with almost no compensation; everyone has a piece of it; and not to use it costs nothing. Even if it is farmed in a rough and nonintensive way, a profit can still be made from it. Second, the land mobility mechanism is not well developed, making it difficult to effectively combine the production elements of land, labor, and capital. Those able to farm cannot get more land, and those unable to farm have no less land to farm. Third, collective management of the land is weak and ineffective. The cadre questionnaire survey showed that 51.1 percent of village collectives had no regulations at all and did not intervene regarding land that was allowed to lie fallow; and 57.4 percent of village collectives had no regulations and did not question the practice of peasants going away to do business or work, the land being poorly farmed.

## (2) The Two-Tier Farming System

The provision of services before, during and following production, doing the things that individual families and households cannot do for themselves is one tier of the two-tier farming system. It is a basic function of cooperative economy organizations. In recent years, every jurisdiction has done a lot of work in this regard, but the situations that the survey revealed show that the extent of services that cooperative economy organizations provide peasants in grain production are overly low, and that the services provided in machine plowing, drainage and irrigation in 1988 did not match those provided in 1984. See Table 9.



Table 9. Kinds of Grain Production Jobs Done by Surveyed Households (%)

Jobs	Self-Done	Hired	Done by Several Families in Cooperation	Collective-Provided Service	Self-Done	Hired	Done by Several Families in Cooperation	Collective-Provided Service
Plowing	67.1	14.1	4.7	14.1	66.1	16.0	4.2	13.7
Sowing	79.8	6.2	11.3	2.7	78.7	7.4	10.9	3.0
Irrigation	62.4	1.9	3.7	32.0	63.0	2.3	3.8	30.9
Disease and Insect Pest Prevention, Control	95.1	0.8	0.5	3.6	94.2	1.2	0.4	4.2
Harvesting	88.5	4.4	6.3	0.8	87.6	5.1	6.4	0.9
Threshing	65.4	7.8	24.8	2.0	94.7	8.7	24.8	1.8
Breeding, Purchasing Fine Varieties	75.2	0.9	22.9	72.1	1.2	0.8		25.9
Purchase of Chemical Fertilizer and Pesticides	86.7	0.8	0.6	11.9	84.4	1.2	0.6	13.8

Difficulties in production that individual households cannot solve themselves, but for which cooperative economy organizations provide no effective services, adversely affect improvement in agricultural productivity to a certain extent. A survey of peasant household jobs

performed in grain production showed no marked changes since 1984 in the way plowing, sowing, irrigation, disease and insect pest prevention and control, harvesting, and field hauling are done. Mostly they continue to be done by people and animals. See Table 10.

Table 10. Surveyed Household Methods Used To Do Grain Production Jobs (%)

Job	1984			1988		
	Manpower	Animal Power	Machine	Manpower	Animal Power	Machine
Plowing	8.9	68.0	23.1	9.1	63.7	27.2
Sowing	74.5	18.6	6.9	72.9	18.4	8.7
Irrigation	57.9	0.5	41.6	57.1	0.4	42.5
Disease and Insect Pest Prevention and Control	92.4	0.2	7.4	91.8	0.3	7.9
Harvesting	97.7	0.2	2.1	96.5	0.3	3.2
Threshing	45.6	6.1	48.3	44.3	4.4	51.3
Field Hauling	69.7	23.1	7.2	67.3	22.5	10.2

The most important thing that can be done to end as quickly as possible the standstill in grain production so that it takes the road of steady increase once again is, we believe, improvement of the external economic environment for grain production according to the principle of exchange of equal value in order to truly stir peasant interest in farming grain. This includes suitably increasing the fixed contract procurement prices paid for grain, stabilizing or lowering prices of the means of agricultural production, and gradually widening the percentage of grain purchased from the peasants at negotiated prices so that there is really give in the "give portion" of procurement. At the same time, it is necessary to deepen internal rural reform to perfect the land contracting system and the two-tier farming system, to improve the service functions that cooperative economy organizations provide, and gradually to begin to farm on

an economic scale in places where conditions permit, thereby placing the increase in returns from grain production on a foundation of improvement of the soil productivity rate, and the labor productivity rate.

#### Agricultural Difficulties Facing Hainan Viewed

HK0506065790 Beijing JINGJI RIBAO in Chinese  
9 May 90 p 3

[Article by staff reporter Tong Zhiqi (4547 0037 3823):  
"Hainan: Agricultural Situation Shuts Optimism Out"]

[Text] Hainan is a province where the total value of agricultural output tops its industrial equivalent. In local people's words, this province is a "vast rural area." The climate here is favorable to the growth of grain and a variety of tropical cash crops. In 1989, Hainan suffered

the gravest natural calamities in 10 years: In the first half of the year, there was a serious drought; in the second half, there were windstorms and waterlogging, especially the four violent typhoons in a row that hit Hainan within a short space of 20 days in October, bringing disaster to large areas of crops and causing heavy losses. In the wake of the disaster, Hainan people picked themselves up, provided for themselves by engaging in production, overcame difficulties, and reaped a bumper harvest in the year of disaster. The total value of agricultural output reached 2.734 billion yuan, up 2.4 percent over the previous year. The output value of farming, animal husbandry, and fishery, in particular, saw a big increase. The total grain yield came close to the record high.

However, there is no reason to be optimistic about the agricultural situation in this "vast rural area." After Hainan was made a province, the guideline laid down for agricultural development was: With the focus on grain production and gradual increase in the degree of self-sufficiency of grain, attention should also be rendered to the development of tropical cash products, including those of fishery, forestry, and animal husbandry, and the goal is to turn agriculture in this province into a foreign exchange-earning practice. In accordance with this guideline, Hainan provincial authorities set the target of grain yield for this year at 1.58 billion kg, 90 million kg more than last year, overtaking the record high. There will be increases at different rates in the output of sugarcane, oil-bearing products, dry rubber latex, coconuts, peppers, and coffee; in the amount of pigs, cattle, and sheep on hand; and in new afforestation area. There is no denying that, with the current agricultural conditions in Hainan, there are loads of difficulties to overcome before this goal can be reached.

#### First difficulty: Serious shortage of chemical fertilizers

Before it became a province, Hainan used to receive some 200,000 metric tons of chemical fertilizers for agricultural use from the central and Guangdong provincial authorities (amount used for land reclamation not included, similarly hereafter). However, only 100,800 metric tons, half of the previous amount, is obtainable this year, due to a variety of reasons. The amount of chemical fertilizers for crops per mu is only 11.7 kg, way below the national average standard of 36 kg.

Hainan abounds in tropical cash crops, which have to be cultivated with large amounts of fertilizers. In all localities across the province, there is altogether 2.82 million mu of tropical cash crops (all without allocated chemical fertilizers.) Because of their high value, peasants have, in fact, been using a considerable portion of chemical fertilizers for grain production on tropical cash crops, putting the production of general farm crops, especially grain, in bad need of fertilizers, thus making it hard to increase per unit area yield.

#### Second difficulty: Shortage of diesel oil for agricultural use

In 1989, the state allocated Hainan 17,200 metric tons of diesel oil. Calculated in terms of the power of agricultural machinery now available province-wide, there is

only 15 kg of diesel oil for each horsepower each year, 37.5 percent of the national average.

#### Third difficulty: Water works are in poor repair; farmland capital construction makes a heavy task

Water works in Hainan are handicapped by an incomplete conveyance system, seriously timeworn equipment, dilapidation, reduced efficiency, and low capacity for fighting adversities. There are 119 reservoirs, over one-third of all the reservoirs in the province, which are unsafe. Nearly two-thirds of irrigation facilities in irrigated areas are incomplete, hampering a full play of the role of water works. At Shiliu Reservoir of Changjiang Li Autonomous County, the designed storage capacity is 140 million cubic meters, irrigating an area of 150,000 mu. But the actual area irrigated by this reservoir is only 55,000 mu, due to culvert leakage and trunk canal seepage, and because part of the irrigation canal has not yet excavated.

On the one hand, water works available are not in full operation; on the other, about half of the arable land in the province is covered by no water works at all and is left to the caprices of nature. Province-wide, there is now 2.51 million mu of low-yielding land, 59.1 percent of the total area of paddy and dry farmland, whose per mu yield is below 400 kg.

To do a good job in repairing water works, finishing up a conveyance system, and capital construction of farmland is a very arduous task. The central authorities have decided to allocate Hainan a fund each year for carrying out its comprehensive agricultural development focusing on the transformation of low-yielding land for three years running, starting from 1989. However, even with the central appropriations, the money raised by the provincial authorities, and the bank loans, there is still a lack of over 250 million yuan for fully accomplishing the tasks of water works development and farmland capital construction.

#### Table of Peasants' Incomes for 1989 Reported

HK1106115890 Beijing NONGMIN RIBAO in Chinese  
14 May 90 p 1

["Table of Peasants' Per Capita Net Income in Various Provinces, Municipalities, and Autonomous Regions in 1989"]

[Text]

Region	Per Capita Income (yuan)
Shanghai	1379.87
Beijing	1230.56
Tianjin	1020.25
Zhejiang	1010.72
Guangdong	955.02
Jiangsu	875.70
Liaoning	740.22
Fujian	697.34

Region	Per Capita Income (yuan)
Hainan	674.27
Shandong	630.56
Jilin	623.69
Hebei	589.40
Hubei	571.84
Jiangxi	558.64
Hunan	558.34
Xinjiang	545.61
Heilongjiang	535.19
Ningxia	521.90
Anhui	515.66
Shanxi	513.87
Sichuan	494.07
Guangxi	483.04
Yunnan	477.89
Nei Monggol	477.50
Qinghai	457.52
Henan	457.06
Shaanxi	433.67
Guizhou	430.34
Tibet	397.25
Gansu	365.89

### Approval for Futures Market Given

HK0406041090 Beijing CHINA DAILY (BUSINESS WEEKLY) in English 4 Jun 90 p 1

[By staff reporter Qu Yingpu]

[Text] The government has finally approved a long-discussed plan to bring futures markets back after 41 years' absence.

The market—the first futures trading centre ever in a socialist country—is scheduled to start handling wheat transactions in August, an authoritative source said.

With two years of careful preparations, Zhengzhou, capital of central China's major wheat producing province of Henan, will take pride of place as the location of this breakthrough in the country's systemic reforms.

A futures market is a place where contracts for the future delivery of commodities, such as grains and pigs, are bought and sold. The commodities themselves are not brought to the market; it is only the promises of future delivery that are traded.

Economists are working on the final draft of the regulations to decide who will be admitted to the floor, said a senior researcher with the State Council's thinktank, the Development Research Center, declining to be named.

Although she declined to give details on the regulations, the researcher ruled out the possibility of foreign dealers in the market at the outset.

She told BUSINESS WEEKLY the rules will be officially released later this month.

If successful, the rules are expected to guide the operation of three more futures markets which are now being planned.

The three markets would be one for corn in Changchun, Jilin Province, another for rice in Wuhan, Hubei Province and a third for pigs in Sichuan Province.

Along with Henan, these inland provinces did not enjoy the benefits of preferential open door policies in the 1980s that have brought rapid development to China's coastal areas.

The markets had been first planned to be set up at the end of 1988, but was postponed by the austerity policy that soon followed. Further economic difficulties delayed a second plan to build the first futures market in Zhengzhou in May last year.

Meanwhile, Chinese research economists never stopped seeking foreign help. In February, China entered into a memorandum of understanding with the Chicago Board of Trade in the United States to study futures trading and train Chinese dealers and managers of futures markets.

The authoritative source said the Chicago board has hoped to push China's futures markets into international futures trading.

The idea of establishing futures markets originated in early 1988 when Premier Li Peng wrote a letter to Ma Hong, chief of the thinktank, asking him to investigate ways of coping with price hikes of vegetables and pork.

Government policies since the mid-1980s have deregulated the prices of commodities, resulting in drastic fluctuations in the prices of farm produce. They caused risks and losses to farmers, which in turn drove up urban prices and forced the government to increase its subsidies to urban consumers.

Besides vegetables and pork, about 65 million tons of grain also circulate in the free market each year, and are therefore subject to price risk.

Economists say futures markets could provide the opportunity to hedge against price risks and a mechanism to achieve relative price stability.

Such trading could enable farmers to know beforehand how much they can expect to earn from their produce and decide how much they should plant or how many animals they should raise, thus avoiding the need to make such decisions based solely on current market conditions.

The futures buyer assumes the risks of price fluctuations in the future.

An organization to study futures markets was established in April 1988, and American agro-economists were invited to China to update the knowledge of Chinese economists.

The source said it is good timing to start a pilot futures market this year. Good harvests have promoted provincial authorities with protectionist tendencies to release their grain for sale to other parts of the country.

China's grain output hit a record 407.9 million tons last year—nearly 1 million tons more than the record of 407 million tons set in 1984.

The government further increased its budget for this year's agriculture production by 200 million yuan (\$42.4 million) over last year's 18 billion yuan (\$3.81 billion) to guarantee grain production.

A look at China's circumstances, however, allows little optimism for the expected increases. China has had to feed 1.1 billion mouths, more than 20 percent of the world's population, on only 7 percent of the world's arable land.

Economists say that unless an efficient solution is found, problems will arise, because the annual population growth of 14 to 14 million surpasses the cereal yield increases.

China, short of foreign exchange reserves, has already found it a heavy burden to import large amounts of grain every year.

They said the futures markets could be a solution.

### Shandong Grain Prices

40060051B Beijing JINGJI CANKAO in Chinese  
5 Jun 90 p 1

[Summary] The price of wheat in Shandong Province has decreased from 1.128 yuan per kilogram at the end of 1989 to 0.95 yuan; corn 0.68 yuan to 0.638 yuan; and rice 1.813 yuan to 1.58 yuan.

### Jiangsu Agriculture Advances Called 'Remarkable'

OW1206060490 Beijing XINHUA in English 0600  
GMT 11 Jun 90

[Text] Nanjing, June 11 (XINHUA)—Southern Jiangsu Province, one of the most economically advanced areas in China, has made remarkable progress in agricultural modernization and set an example for other parts of China.

Chinese and foreign agricultural experts consider that the mechanized farming, electrification, water conservancy, application of fertilizer and herbicide, and cultivation standardization in this area approached the

advanced international level, according to Ma Ding, director of the agricultural modernization office of Suzhou City.

Southern Jiangsu includes 12 counties under the jurisdiction of Suzhou, Wuxi and Changshu Cities. With a population of 12 million and 700,000 ha of farmland, the area has 38 percent less farmland per capita than the national average. However, the per capita grain output in this area reached 500 kg last year despite natural adversities.

Jiang Hanliang, an official of Wuxi City, said that there is 10.5 hp of mechanization per ha in southern Jiangsu, approaching the level in the United States and Japan. The irrigation facilities and drainage systems are adequate for handling drought and water-logging problems, and the amount of fertilizer averages 150 [word indistinct].

In addition, townships and villages have set up agricultural service stations to provide such services as tractor-ploughing, control of crop diseases and pests, water conservancy and technical guidance, as well as supplies of capital goods.

Gu Jisheng, a peasant of Xiaoshan Village near Changshu City, said that, previously, work on one quarter of a ha of land used to take a whole year, but nowadays a peasant can cultivate a complete ha with an input of only 150 days of labor.

Local officials noted that in the past a peasant who engaged in farming could earn only 100 yuan a year, while rural industry paid more than 1,000 yuan. As a result, there was a flight from the land.

But farming is now as lucrative as other trades, the officials said. Qiu Yonggen, a former deputy director of the village-run factory in Zitang Township, Changshu City, resigned and returned to farming in 1988. Qiu and his wife have contracted five ha of newly reclaimed land and produced 34 tons of grain in 1989, earning 17,000 yuan.

"I have been praised as an outstanding farmer by the local authorities and am much better off than when I was deputy director of the factory," Qiu said. "During the spring festival, even the party secretary of the city committee came to our village and encouraged me to achieve a good harvest."

Shen Yueying, deputy head of Zitang Township, said that as so many workers have asked to leave their industrial occupations and return to farming, there is not enough land for them to cultivate. So would-be farmers actually have to pass exams to make sure that the land is distributed to people who actually are expert farmers.

Gu Jisheng, a peasant of Xiaoshan Village, said, "In the past, we always thought [word indistinct] was irrelevant to farming. However, a good farmer these days must learn new techniques and skills, and have some knowledge of agricultural sciences."

The 52-year-old peasant and many of his fellow-villagers attend training courses two days every month. They also listen to radio lectures and subscribe to agricultural journals.

### **New High-Yielding Wheat Strain Developed**

*OW1106195490 Beijing XINHUA in English  
0549 GMT 11 Jun 90*

[Text] Beijing, June 11 (XINHUA)—A Chinese scientist has developed a new high-yielding wheat strain which is resistant to drought and saline-alkali soil.

The strain was experimentally sown in an arid and saline-alkali area in Heilongjiang Province in 1988 and 1989.

During the growing period the rainfall in the area was only 80 mm and there was no irrigation at all. However, the output of the wheat reached 4,500 kg per ha.

The strain was developed by Deng Jingyang of the Chinese Academy of Agricultural Sciences.

### **World Bank-Funded Fish Project Nears Completion**

*HK1206032790 Beijing CHINA DAILY in English  
11 Jun 90 p 2*

[By staff reporter Wu Yunhe]

[Text] A World Bank-funded project designed to develop the fish industry in the country's eight major cities is expected to be completed by the end of this year, according to the Ministry of Agriculture.

The World Bank loan of \$60 million, coupled with investment of about \$70 million from the Chinese side, had enabled the project to establish 1,310 fish farming ponds by developing a total of 17,130 hectares of waterlogged lowland and saline-alkali land, an official from the ministry said.

The loan was acquired by the ministry's aquatic bureau on a 35-year term.

The project, started in 1987, aimed to ease the shortage of fish supplies in major cities, the official said, adding that it was now being carried out in Beijing, Shanghai, Hangzhou, Shenyang, Harbin, Chongqing, Chengdu and Nanchang.

Latest figures released by the ministry showed that by the end of last month, 11,000 hectares of fish farming ponds had been established, and more than 5,600 hectares of existing fish farms updated in the cities using the World Bank loan, the official said.

A string of fodder processing firms, scientific research and service centres, trade and marketing centres and cold storage units had also been set up in the cities, she said.

"The project is running successfully as the development targets set for the project's three-year implementation period have almost been reached," the official added.

China had accumulated a wealth of experience through the establishment of the project to launch a large-scale fish farming development programme, she continued.

And fish production in the eight cities had all doubled as compared with three years ago, she said.

In Shenyang, for instance, fish output had hit 14,000 tons last year, showing a 100 percent increase on 1987.

Encouraged by this initial success, China hoped to attract more foreign funding for the future development of fish farming.

But China would make a major shift from pumping foreign funds into its fresh fish farming industry to financing seafood development, she said, adding that there were 3.54 million hectares of marshland along the country's coastline, 2.65 million hectares of which were still uncultivated.

In view of the current shrinking fresh fish markets both at home and abroad, development of the country's potential seafood industry would be of more benefit to consumers and producers, she said.

Some high-grade seafoods such as scallop and abalone were already very popular on the consumer market, she added.

### **Guangxi Chairman Addresses Forestry Conference**

*HK1406150590 Nanning Guangxi Regional Service  
in Mandarin 1030 GMT 13 Jun 90*

[Excerpt] The Guangxi Regional Conference on Forestry Reform was held in Nanning on 12 June.

The conference was attended by a total of more than 400 people. Including prefectural directors, city mayors, county magistrates, and responsible persons of various departments concerned in Guangxi.

The conference was mainly devoted to discussing and formulating specific measures aimed at reforming Guangxi's forestry structure.

Cheng Kejie, chairman of the Guangxi Regional People's Government, attended and delivered a speech at the conference.

Long Chuan, vice chairman of the Guangxi Regional People's Government, delivered a report on Guangxi's forestry reform at the conference.

The conference summed up and exchanged experiences concerning Guangxi's forestry reform, unified people's ideological understanding, popularized the successful experiences of Xinan County in carrying out forestry reform, formulated measures aimed at readjusting and perfecting Guangxi's forestry management structure and Guangxi's forestry development policies.

In his report, Comrade Long Chuan mainly dwelt on the relationship between forestry and grain production, the relationship between forestry and peasants' income, and the relationship between forestry and industry, and expounded the important position of forestry in Guangxi's regional national economic development.

Comrade Long Chuan held that all the comrades concerned in Guangxi must attach strategic importance to forestry, fully understand the important position of forestry in Guangxi's regional economic development, and ideologically attach great importance to forestry development.

Comrade Long Chuan said that only by developing forestry and increasing economic, social, and ecological results will it be possible for Guangxi to increase her grain output and regional revenue and improve her ecological environment.

Comrade Long Chuan also made an analysis of all the major problems facing Guangxi's forestry development at present and put forward a guiding ideology for Guangxi's forestry reform.

Comrade Long Chuan said that Guangxi's forestry are mainly facing the following three problems at present:

1. Consumption of forest resources exceeds growth of forest resources;
2. A sharp contradiction between timber supply and timber demand;
3. The per unit forest area economic results are relatively poor.

Comrade Long Chuan held that in order to successfully carry out forestry reform, Guangxi must properly handle both the relationship between immediate interests and long-term interests and the relationship between economic results and ecological results, cultivate a correct guiding ideology, and boldly carry out reform of the existing forestry policies and structure in a planned and guided way by adhering to the four cardinal principles. [passage omitted]

### UN Support for Guangxi Agricultural Project

HK1406033890 Beijing CHINA DAILY in English  
14 Jun 90 p 2

[By staff reporter Wu Yunhe]

[Text] The World Food Programme (WFP), the United Nations body which deals with food aid, has approved a five-year agricultural development project in the Guangxi Zhuang Autonomous Region in South China.

The WFP would contribute \$19.75 million to pay for food and transportation to support the project, according to a WFP statement.

This aid, together with \$22.07 million coming from the Chinese side, would be used to update old irrigation systems and other land improvement programs, to increase agricultural production and protect the environment in the region, according to a Ministry of Agriculture official.

The project's goals were to expand agricultural production, facilitate access to markets and improve local water supplies and farmers' living conditions, he said.

An estimated 100,000 households in the region were expected to benefit from the project, according to the WFP statement.

The WFP is currently assisting 11 different projects in China at a cost of \$210 million.

The new project would be implemented by the Guangxi regional government, the official said.

It would be conducted in the counties of Mashan, Shanglin and Xiangzhou which were suffering from poor irrigation facilities and a shortage of good agricultural land, he said.

WFP food assistance would be used as an incentive for the establishment of the project.

Farmers participating in the project would receive a daily family ration of rice as payment for their work, the official said.

Dams and diversion weirs in Mashan and Shanglin and on the Dalongdong reservoir would be repaired.

The canal system in the area would be renovated, he said, and 34 villages in Mashan county would be supplied with community water storage tanks or cisterns.

Land improvement measures would include the application of organic fertilizers, construction of land terraces and surface drains, production of improved seed varieties and other low input methods of soil management.

**March's Exports of Cereals, Oils, Food**

*HK1506113590 Beijing CEI Database in English  
15 Jun 90*

[Text] Beijing (CEI)—Following is a list showing China's export volume of cereals, oils and food in March 1990, released by the General Administration of Customs:

Name	unit	Mar	Mar 1989
pig	head	262,165	271,719
poultry	in 10,000	492	445
beef	ton	2,038	2,689
pork	ton	7,385	6,846
chicken	ton	3,049	2,677
rabbit	ton	1,229	1,540
egg	in 1,000	8,862	74,374
aquatic products	ton	37,360	27,981
fish	ton	4,415	3,981
prawn	ton	14,598	5,793

Name	unit	Mar	Mar 1989
cereals	ton	470,978	374,485
rice	ton	33,589	11,700
soybean	ton	131,341	69,284
pulses	ton	81,140	29,119
maize	ton	190,069	176,607
vegetables	ton	61,906	61,952
fruit	ton	18,564	15,680
orange	ton	3,781	3,847
apple	ton	13,489	7,439
sugar	ton	64,286	2,315
canned food	ton	33,037	47,538
pork	ton	4,192	3,539
vegetables	ton	18,913	34,315
fruit	ton	5,116	6,546
others	ton	4,816	3,138
vegetable oil	ton	15,525	508
peanut	ton	53,557	32,932



### University Campus Maladies

90CM0216A Beijing DAXUESHENG [UNIVERSITY STUDENTS] in Chinese No 4, 10 Apr 90 pp 30-31

[Article by Jin Wenju (7246 2429 5468)]

[Text] Since the spring and summer of 1989, one question has continued to perplex me: Why did the disturbance produced by the interaction between the larger international and smaller domestic climates break out around university campuses of all places?

I took this question to several dozen universities. After talking with nearly 100 students, I discovered the following: Do various "campus maladies" exist because campuses of institutions of higher learning have become disturbance launch sites?

First, the "malady of individual utilitarianism" of those eager for quick success and instant benefit. Marxism talks of utility. However, all work is limited by quality and quantity. Suppose utility is stretched to the limit. In the extreme, it becomes the individual expression of desire and baffling utilitarian impulses. Why fear a trifling matter when one wants to belittle others, be in the limelight, is unwilling to manifest his value in the process of contributing to society steadily and surely, and always is dreaming of "being crowned with eternal glory" overnight. Confused, one does not know which path to choose. Upon reflection, a student of economics at one of the schools said frankly, "When examining my own conscience late at night and thinking of my impetuosity during the turmoil, I cannot eliminate thoughts of individual utilitarianism." In a boundlessly remorseful frame of mind, one who was chained and thrown into prison for burning and smashing military vehicles said, "I originally disagreed with the viewpoints of the troublemakers. It wasn't until I saw that things were getting pretty serious and there was a chance for eternal glory that I got up and got involved. It seems that unexpected political wealth is hard to come by. It's still best to work steadily and surely and to be a good person through honest work."

Second, the "malady of tending toward blind contrariness." This malady appears as: always inexplicably wanting to be contrary and reach opposite conclusions regardless of whether others say it is right or wrong. There is a joke at Beijing University. When a doctoral student used a quote from Nietzsche to explain a problem, he incorrectly cited Engels as the source, so some listeners immediately began hissing all around. Then the student realized his error. When he explained that it was actually Nietzsche's viewpoint, the former opponents promptly tried to find an out, indicating their understanding and praise for this view. *HE SHANG* [*River Elegy*, a film] originally was a geopolitical cliché. Just because it denied the history of the Chinese nationality it caused some people to be as though drunk or mad. During the turmoil, some "elites" merely picked up phrases and passed them off as their own. They acted ostentatiously with several-hundred-year-old Western

capitalist things. Because of the influence of this mode of thought, certain students blindly accepted them.

Third, the "malady of infantile mirages divorced from reality." This kind of disease always makes some people see mirages divorced from reality. A fellow named Guo Chengming [6753 2110 2494] at Lenin University is a malignant sufferer of this malady. In designing his plans for himself, he wrote, "At the age of 45 I will be minister of foreign affairs. At age 50, premier. From 55 on I will firmly establish new authoritarianism and national revanchism. At 58 the West will attack Europe and Russia. I will be dispatched to Moscow within a year and upon return to the East, confer with Japan and stabilize things within six months. Within another half year, I will establish a new world order. At my 60th birthday the entire nation will join in jubilation. In the year 2025, after Christmas, on the 22d day of the sixth month of the lunar calendar, I will announce to the people of the world that I have completed the historical mission granted to me from heaven." Such a malady of fantasy compelled him to throw himself into the revolt. He not only did not become the redeemer but rather an object for redemption. His case is not unique. A few years ago, Feng Daxing [7458 1129 5281] of the Beijing Foreign Languages Institute and Liu Yong [0491 0516] of Beijing Aeronautical Engineering Institute fantasized about being saviors. As a result, they took the self-destructive road to ruin. Several Beijing Agricultural University students who returned from doing social practice work summed it up this way: "Those who do not know the past and present of the fatherland cannot put themselves in a correct relationship with it. Planning for the future of the state and themselves while staring at the ceiling will inevitably poison and bewitch one to accept incorrect conclusions. There are none who have not blundered in this."

Fourth, the "malady of vanity and stubbornness." In the 1950's and 1960's students turned their backs on parents who had provided for their education, and called them neighbors. In the 1980's of today such scandals have not been eradicated. Some people all the more take on the "character of the times." First of all, students ought to glorify hard work and thrift. But some contrarily want to show off by spending money in front of others. It used to be that one was not at all timid about political maturity. [Now], some participated in the throngs of demonstrators, calling out, only because they feared being accused of studying thievery or even just to earn some "fervor" money. One student firmly fasted for three days and three nights only because his girlfriend said, "How can you let so-and-so be in the limelight?" Thereupon he collapsed and was sent to the hospital. He did not put his heart at ease until he awoke and saw the esteem in his girlfriend's gaze.

Vanity and stubbornness complement one another. "Death before admitting guilt" is a prime example. A master's degree student wrote to his professor, "Now, no matter how I blame my conscience, I still cannot say in public the three words, 'I was wrong.' This is due to the

psychological factor of thinking one is always right, and also due to having a thin skin. When I'm with others, manly dignity makes me involuntarily utter distasteful words. Having a dual personality is really tough."

Fifth, the "malady of being sick of education." It is quite interesting to look at the grades of "student leaders" at several schools. Wuer Kaixi [0710 1422 7030 1585] did not pass four courses at Beijing Normal University. He was just on the verge of being compelled to withdraw. His famous remark is, "In the process of struggling for democracy, what I lost was the heavy load of study. What I gained was a beautiful life." Wang Dan [3769 0030] of Beijing University failed to pass to the next grade. So-and-so from Qing Hua University was punished for cheating on an exam. So-and-so from People's University was punished by the school for attempted rape of a young girl and his scholastic record fell to below average. Are these accidental?

In the early stage of the turmoil campuses had an air of students sick of education. Eventually, there was an intriguing contrast in the atmosphere of the "mahjong clique," "romantics," and "TOEFL [Test of English as a Foreign Language] clique." The ebb and flow of the fever to dance, to engage in commerce, and to travel disturbed some to the point of unsettling them. Their associates sought excitement and played tricks with no sense of decorum. Provided that there was slight activity, people swarmed around, calling out and shouting. As for feelings of responsibility to the state and society, those were all in the back of their minds. Their eyes were fixed on money. When they saw that others earned a bit of money they felt they themselves had no future. They thought of taking shortcuts, fearing the difficulty of study. Such a situation made some pay a heavy price.

Sixth, the "malady of national inferiority." It could also be called the "malady of soft bones." Its symptoms are no mention of national integrity—"the moon gives a more rounded glow abroad than in China." Almost 100 years of semicolonial society have given some an inferiority complex. The objective gap between Chinese and Western economic development makes some who do not understand national history and who lack a sense of responsibility collapse mentally. Those who suffer lightly from the malady think it fashionable to curse their forefathers. They blame their ancestors for not leaving them with ready-made rich property. Those who suffer heavily want to be in the "Tito clique," regretting that they are black-haired and yellow-skinned Chinese. The bones of those with this malady are particularly soft. Liu Xiaobo, who just got the title of Ph.D., is a prime example. Sadly, some applauded as Liu Xiaobo shouted that "China must be a colony for 300 years," styling himself a "national elite" and "patriot." Some grovel at the feet of Westerners. Those who are softly hit sell out the nation and human dignity for the price of a bit of information. Those who are hit hard call for "full-scale Westernization" of the state and political systems. Still others love to use Westerners to oppress Chinese. As long

as they can attain their aims, they can forget about any national self-respect or interests.

Seventh, the "malady of depressive impetuosity." At institutions of higher learning one can hear the ear-piercing sound of shrill cries and breaking bottles, prime examples of this malady. It is said that students are giving vent to constrained instincts. The reasons for constraint are very complex: they are unable to utilize their talents because the country is managed so tightly; "the degree of democratic freedoms is too low"; school rules and regulations are overly strict; personalities are not fully developed; or reality is less satisfying than dreams. After the student tide rose there was a chance to give vent to these feelings. Then, those who wanted to become premier could first become "leaders of the student movement." They were fully satisfied with the acclaim of 1,000 Chinese and foreigners. Those who wanted boundless freedom had full space. They could wantonly hold student strikes, demonstrations, and block military vehicles. Any legal order was hindered by freedom and thoroughly toppled. Those who wanted to make money could take the chance to collect donations and fill their own coffers. Anyone who wanted to become famous could make a name for himself at home and abroad by merely roundly cursing the Communist Party. Consequently, only in the turmoil was there the excitement of "After your side has finished singing, I'll get on stage." I'm afraid that there is no way to forever cast off such a "malady of depressive impetuosity" without putting oneself in a correct relationship with society.

Eighth, the unreasonable "malady of following the masses." Its symptom is to follow where many go, no matter whether it is right or wrong. For a time, the song of "follow your feelings" was very popular in society and on campuses. It instructed people to dispense with reasonable thought and follow their feelings, follow the high tide. Those who suffer from the malady are unwilling to use their own brains to decide right and wrong because that is bitter, tiring, and it is not easy to be isolated. It is far more comfortable and easy to follow the flow. They believe in "where there are many people, that is truth." Many who joined the hordes of demonstrators were not at all clear about the aims and quality of the demonstration. They felt only that it would be bad not to participate since so many people joined in. Some disagreed in their hearts but because the "malady of following the masses" haunted them they ultimately joined in. Several years ago, several youths in a class at China Science and Technology University carried a banner in a demonstration reading "Fate lies in [political] movements." The outcome was that, except for a small group of people who understood in their minds, the majority followed the high tide and came to a tragic end.

Ninth, the "malady of worshipping the elites." Its characteristic is blind worship, regardless of what measures the person uses to attain "elite" status. Sufferers want to become "elites" themselves so they copy slogans without ever analyzing them. The words of the "elites" are

always tasteful to some. First, they always flatter some fellow students as pillars of the state, which can play on the vanity of some. Next, they greatly curse social conditions, arousing the sympathy of some who think highly of themselves. Then, everybody readily follows the "elites" no matter what they propose. After several such instances, "elites" take shape, their words become truth, their books classics, and their slogans the behavior of many others. Blind worship makes people unable to see the sinister intent behind the honeyed words of the "elites." In following blindly and tossing out independent thinking, they become spiritual dependents and victims of the "elites."

The aforementioned list of campus maladies is only superficial. Careful analysis shows that they are caused by a viewpoint which values extreme individualism and by metaphysical ways of thinking, which make us unable to regard social development from a historical perspective. Often with both eyes covered by individual fame and wealth, they cannot take a correct stand in considering problems. They lose surrounding emotions in the quest for personal gain. Thus they become out of tune with society, the state, and the people. They fit in readily with things concerning individual temperament and interests. Extreme individualism turns around people's thinking. It hinders a person's normal judgment faculties and makes some take the wrong road.

Society, the family, and schools are all responsible for the unrestrained extreme individualism on university campuses. This is worth serious pondering. But, should students earnestly try to find reasons to sum up their own experience and lessons? It is necessary; there is no other healthy way to grow up.

This is my official communication. I feel that actually it was not by accident that institutions of higher learning became the launching pads for the disturbances of 1989. In one respect, the existence of various campus maladies give us a clear answer. I trust that our friends can arrive at a common conclusion with us. Of course, here I must specially state that reaching this conclusion does not mean denying the main trend and quality of the majority of students. Here I am only frankly stating the drawbacks of this main trend's premise. The majority of sufferers and some extremely malignant sufferers mentioned above differ in quality. The sole aim of frankly mentioning the illnesses is their prevention and cure, in order to admonish even more students.

Allow us to earnestly study scientific socialist theory and the practical experience of the masses. We continually mature in practice. Allow us to establish a proletarian world outlook and thereby thoroughly eradicate "campus maladies."

#### TOEFL Craze Sweeps Qinghua University

90P30039A Beijing DAXUESHENG [UNIVERSITY STUDENT] in Chinese No 5, 10 May 90 pp 14-15

[Article by Wang Chuanchen (3769 0278 5256)]

[Text] Editor's note: From the viewpoint of today, the "TOEFL [Test of English as a Foreign Language] Craze" is history. The craze did, after all, happen in 1990, and therefore there is a need to make a scientific analysis of it. Towards this end, in this issue we have also published "Old TOEFL Hands Talk." Our hope is that, whether the reader is "preparing for the TOEFL" or "considering the TOEFL," after reading these articles the reader will be a bit more clear-headed about the whole affair.

What is the situation today? In our next issue we will publish an article written by a Beijing University student titled "Hot Becomes Cold: The Retreating TOEFL Tide at Beijing University." October 27 1989. Qinghua University campus.

In front of the auditorium, in front of the main building, all along the road from the No. 10 cafeteria to the No. 3 classroom building, converging masses of students, sitting on their bicycles, nervously glancing side to side, constantly check their watches and ask each other questions.

"Any news yet? It is almost noon. Why haven't they made the broadcast yet?"

"I'm not worried regardless. I've got my people stationed at every place they could possibly be registering, all of them to sign me up. I have got my whole class organized for me. You?"

"I didn't do quite as well as you. I have only 15 people doing it for me."

The crowd is noisy. Each student has a different expression. Some of them joke among themselves to ease some of their tension. Some move from group to group discussing the makeup of the test and the best strategy to use in attacking it. Some, taking advantage of the immediate opportunity, are memorizing *600 Words Used in the TOEFL*. However, each of the students is intensely alert. Dozens of bikes are jammed into the intersections, as if it were the start of a bicycle race waiting for the starter's gun, as if for a high-speed race. And the starting gun finally sounds.

At 1200 the university broadcast system sends out the order: "Today's registration for the TOEFL will take place in the vestibule of the main building. The following regulations will apply..."

"Main building!" "Quickly!" "RUN!"

The roar that arises from all points at the same instant drowns out all the regulations coming from the speakers. In an instant every path leading to the main building is inundated with a flood of rushing bicycles. The scene is so grand it makes one's heart beat faster. The sound of feet running, the shouting, the sound of bicycles colliding rise to a roar! But there is absolutely no arguing over the collisions! "It is such a critical moment for everyone that there is not even time to shout a 'Sorry!'"

The time is now! It is do or die!

The October 1989 TOEFL registration at Qinghua University set a national record: People were standing in line nine days before the actual time of registration. Everyone who was registered had to return each day to reregister. It was extremely exhausting. It is said that it got to the point that, since a [take-a-number] ticket was needed to obtain a registration form, the tickets themselves were selling for over 100 yuan!

The bicycles rushed forward!

The windows of the dormitories along the road were crammed with watchers. "Haven't seen such a grand spectacle in a long time! It is really exciting!" And then everyone was shouting, and shouts of encouragement were heard all along the way: "Run!" "Hurry!" "The tickets are almost all gone!"

In the chaotic crowds there are some with different quests. One student is riding facing backward on the back of a bicycle and he raises his camera toward the oncoming tide of people. Suddenly, another bicycle crashes into his and the camera is thrown to the ground... This TOEFL registration war has been brewing for a long time and the students have become inflamed to the point where there is no stopping them.

Earlier, on 21 October, some students of the engineering and physics departments came forward to act as organizers; it had originally been determined that tickets would be distributed at 1230 in the afternoon on the western steps, but by a little past 0700 that morning the 400-odd tickets had already been snatched up. (One cannot blame them for this, since people had begun to stand in line before 0200 that morning, the pressure was so intense.) So the latecomers had no opportunity to register, were really angry, and accused the organizers of not holding to the schedule. Thereupon, a new grouping was formed and they announced then and there that they would have a new registration that afternoon at 1600. The two groups stood confronting each other, and the situation was extremely tense. The university had no choice but to step in. The Foreign Language Department Examination Center issued an announcement stating that the two issuances of registration numbers/tickets were both voided. On the 27th, the center would organize another registration; the place of the registration would be announced simultaneously at three different bulletin boards.

On the 24th, the Foreign Language Department issued another important announcement, canceling the previously announced notification locations, and stated that on the 27th at noon, the university broadcast station would announce the location of the registration. In addition, the announcement gave the students taking the exam a small bit of reassurance: The role call would be complete, any who were not able to register at Qinghua could go directly to the China Foreign Examination Coordination Office to register.

However, this reassurance was not reassuring: The primary goal was to get registered at Qinghua. Thus it came

about that when the announcer announced the registration place over the speakers, the scene of hurried migration took place.

In front of the main building, bicycles were abandoned everywhere. There was no time to park a bike: Getting one step ahead may mean actually getting a chance.

In the vestibule of the main building, there was a hubbub of voices. Those students who had bet on this being the place had won: Several hundred students succeeded in registering, and then, relaxed and happy, they watched the latecomers storm forward.

The surging tide of people, one wave greater than the next, filled the main building vestibule and the main entrance with terribly anxious students trying to get registered. Anxious to the point of befuddlement, they pushed and shoved, massing around anyone who even looked like he could be a registrar. The surrounded staff workers were sweating profusely, shouting till they were hoarse, hopelessly and helplessly expounding: "Everyone stop shoving! Everyone will get registered! Everybody...!" Their voices could hardly penetrate the masses of people surrounding them like a forest, and behind them more were pressing forward.

The few police from the local station and the university wardens were totally unable to control this flood of humanity.

"We totally did not expect this many people to come to try to register!," exclaimed a still distraught teacher from the Department of Foreign Languages after the fact.

An organizer is surrounded and shoved to the ground. The registration tickets he holds scatter on the ground. Immediately the crowd pounces and grabs them in a life-or-death struggle.

A worker who looks like someone with authority rushes up: "Stop it! All those tickets are now voided!"

The students' shouts drown his voice out: "Even if voided they still have to be issued! After they are issued then void them!"

"This registration could be the last train out: We have to get on it no matter what!"

"What is needed now is perseverance! Hold on to the very last!" The students encourage each other.

In the vestibule camera flashes are constantly going off: These are picture opportunities one seldom gets. At the very least the pictures can give the people some intuitive view of the mad rush of today's intellectuals toward foreign lands, or perhaps, might also make some people ponder this situation a bit more.

After an hour or more of frenzied shoving, the crowds quieted down a bit. Several of the workers call upon the students to form lines, and immediately some dash forward and grab the workers' waists, shouting that this

is the head of the line. The people in back begin grabbing the waist or shoulder of the person in front of them, and soon human chains are formed. Looking at them, it closely resembles the nursemaid at a kindergarten lining up the toddlers to play "hen and chicks," and the scene becomes comical.

At 1330, the students in the courtyard of the main building have formed four long snaking lines.

An afternoon of excited struggling has tired these students who are only used to hard study behind closed doors, and one after another they begin to sit down wherever they are.

The workers set up loudspeakers on the front steps of the main building.

The first words out of the speakers' mouth: "Fellow students! You've been working hard!"

Everyone applauds.

"We are all exhausted. You can imagine that when a person puts all of his money, over a long period of time, on one turn of the cards, what a torment that last moment is!"

At that time they had issued over 1,600 ticket/numbers, enough to make one gasp. (Note: Of this number, some people got several numbers and some were invalidated when they were accidentally dropped and scattered; that evening, after investigation and approval, over 720 valid tickets had been issued.)

One of the responsible people from the Office of Educational Administration said, in an utterly hopeless tone: "The ferocity of this drive to get out of the country, and

the huge number of people who fight to leave the country is enough to frighten and worry a person. As to the causes, there are many; some of the reasons are not easy to state clearly, right now I can only state the facts..." However, how can each one of us not ask a few "why's"?

At the very end of a long, long line of people, one fellow stood in almost absolute terror. He had watched what was happening in front of him with a cold eye. Little by little the crowds had dispersed, hurrying away to the next step in the process, but he still stood there in the now empty campus. The sun was sinking in the West, the sky was darkening to red, when he finally let out a deep sigh of regret.

"I am a doctoral candidate at XXX Institute. I too came to register. I had great hopes that I too could go abroad to do some studies, and for that end I spent six months studying for the TOEFL. But today, I have decided to give up the fight. Hell! All of us students have tried to crowd down this one narrow road, and we are crowding ourselves to death. When I see how so many of our best and brightest students have pinned all of their hopes and all of their plans upon other countries, my heart grieves! Is there no other road we can travel? Everyone knows that registration is just the very first step of a long, long journey, and the rest of the road is even longer, even more difficult, and yet they still choose this road. Our own country provides a multitude of paths on which we can open up careers and give free play to our talents! Why are our students all crowding into this kind of narrow and restricted path?"

The crowds had gone away. The only things left on the broad campus were the doubts and perplexities left behind by the crowds.

**Biographical Sketch of CPPCC Chairman Hong Xuezhì**

90P30042A Hong Kong MING PAO YUE KAN [MING PAO MONTHLY] in Chinese No 293, May 90 pp 31-36

[Text] The New Chairman of the Chinese People's Political Consultative Conference, General Hong Xuezhì

After the 4 June Tiananmen incident, anyone who made some small analysis of the situation on the mainland would realize this one basic fact: The mainland today is the same as it has been for decades—it is still an era wherein “political power comes from a barrel of a gun.” For this reason, people who are concerned about political developments on the mainland must be concerned with the situation of mainland people wielding military power.

Today among the military circles on the mainland, the position of Hong Xuezhì [3163 1331 2535] is unique for a senior active-service general. Although Hong was ousted from his important post as deputy secretary of the Central Military Commission only several months ago at the CPC Central Committee Plenary Session, and at the more recently convened NPC [National People's Congress] was ousted from his position on the state Central Military Commission (by precedent, this means that before long he will be ousted from the CPC Central Military Commission), however, as one of the originally appointed 17 generals, he is the most experienced. At the same time, this goes to show that Hong's personal power, political attitudes, and influence are already putting some people on guard. Whether his “demotion” at this time will lead to his “promotion” next time cannot be known.

As for Hong, one of the original influential military types, very few non-experts know much about him. Therefore, I would like to present my evaluation of the background, history, personality, and power of General Hong Xuezhì.

**An Early Orphan, Hong Joins the Red Army**

Hong Xuezhì formerly used the name Feng Xuezhì [7458 1331 1807]. He was born in 1913 of a poor peasant family in the Dabie Shan mountains of Jinzhai County in Anhui Province. He lost both parents early in life. In 1929 he joined the communist party organization during the Shang-Nan (South of Shangcheng [Henan]) uprising. After the uprising, the Red 3d Division was formed, with Hong joining the enlisted ranks of the 8th Regiment. For his battlefield exploits he was made squad and then platoon leader. In 1931 the Red Students from the Dabie Shan regions of Hubei, Henan and Anhui were organized into the Red 4th Front Army under the overall command of Xu Xiangqian, with Zhang Guotao as representative of the party center.

**With the 4th Front Army on the Long March from the Dabie Shan Mountains to Northern Shaanxi**

In the bloody “Encirclement and Suppression” and “Anti-Encirclement” campaigns fought by the Communists and the KMT [Kuomintang], Hong Xuezhì rose grade by grade. He served as a company commander in the 29th Regiment of the Red 10th Division, as battalion political commissar, and so forth. With the defeat of the Red 4th Front Army in the Dabie Shan Mountains, they marched into northern Sichuan, and Hong was appointed chief of the Political Office [zhengzhi chu], 274th Regiment, 93d Division, Red 31st Army, and took part in the famous Long March. During the Long March, Hong continued to rise through the ranks, first to director of the Political Department [bu] of the 93d Division and then to director of the Political Department [bu] of the Red 4th Army. Commander of the Red 4th Army at this time was still the famous “Red Tiger” Xu Shiyong, and the political commissar was the awesome General Wang Jian'an. Thus, by the time he was 23 in the autumn of 1936, Hong had become a deputy army-level cadre.

At the end of the Long March the Red 4th Front Army was the strongest, with five armies and about 40,000 men; the Red 1st Front Army and the Red 2d Front Army each had only two armies of about 10,000 men, their combined total strength was still less than the Red 4th Front Army. Unfortunately, the three armies which were the main strength of the Red 4th were regrouped into the Red Army West Route Army and marched west across the Huang He River hoping to open up the international route across Xinjiang, but after several months of vicious fighting in the Hexi (West of the Huang He) corridor and the Qilian Shan mountains, were practically wiped out by the KMT Nanjing government's resident Qinghai warlord, Ma Bufang. Hong Xuezhì's Red 4th and the Red 31st Armies were unable to cross the Huang He because of attacks by the KMT armies, and thus avoided this disaster and went directly into northern Shaanxi.

**Criticized by Mao, the Secret Uprising Plot**

In northern Shaanxi, the dispute between Mao and Zhang Guotao was over: The fact that in the course of the Long March Zhang Guotao had headed south and set up his own Communist Party Center had been branded as “antiparty” activity. Hong Xuezhì and the other high-level cadres of the Red 4th Front Army who were considered as Zhang Guotao's “military foundation” were stripped of their military authority and sent off to the newly established “Red Army Anti-Japanese Political University” to be educated.

Later, in the “Anti-Zhang Guotao Line” struggles that swept northern Shaanxi like wildfire, all the high-ranking cadres of the former 4th Front Army got entangled in the criticism, and Hong Xuezhì was no exception. At “Kang Da” [Anti-Japanese University], criticism and struggle were daily fare for the students. Ranking cadres of the

Red 4th Front Army were labeled as "bandits," "Guotao's remnants," etc. It was under these circumstances that some of the former Red 4th Front Army cadres, including Xu Shiyou, Wang Jian'an, Zhan Caifang, and Hong Xuezhi hatched a plot to rebel, go into the mountains, and become guerillas, and return to the Dabie Shan Mountains to set up their own kingdom.

#### **Defeat and Imprisonment, Mao's "Leniency"**

Before the "rebellion" could start, it was uncovered and Xu Shiyou, Wang Jian'an, Hong, and others were all captured, tried by the Communists' own court, and sentenced to prison. For a while the cadres of the Red 4th Front Army were their own worst enemies, and the turmoil in Shanxi seemed to produce an enemy behind every bush.

At this time the Communists controlled northern Shaanxi and perhaps a bit more: Outside this area was the might of the KMT political-military oppression; inside were three uncooperative armies—these were bad days. Mao was trying to conquer the country; after he had defeated Zhang Guotao and made good use of his leadership abilities: he did the "magnanimous thing" for the cadres of the 4th Front Army who were implicated in the rebellion. Mao went personally to the jail and one by one set free Xu Shiyou, Wang Jian'an, Hong Xuezhi, and the others. Zhang Guotao, he said, had been sent by the Communist Party center to the 4th Front Army: the party center and Mao himself should take responsibilities for Zhang's mistakes, and the others should not be held responsible. The cadres of the 4th Front Army were very grateful to Mao, and from this time forward were well used by him.

#### **The War of Resistance Early Years; Joining the 115th Division**

After the July 7th Incident [Marco Polo Bridge, 1937], the Red Army was reorganized as the 8th Route Army. The former 1st, 2d, and 4th Front Armies became the 115th, 120d, and the 129th Divisions. Mao, however, taking some assiduous precautions, did not allow these warriors from the 4th Front Army who had just gotten out of jail to join the 129th Division, but found other work for them. Xu Shiyou and Wang Jian'an were sent to Shandong, to posts in the Shandong Column of the 8th Army; Zhan Caifang was sent to the Shanxi-Chahar-Hebei border area. Hong Xuezhi was first sent to the Anti-Japanese University as deputy regimental commander of the 4th Regiment and then later sent to work in the 344th Brigade of the 115th Division. Although this 344th Brigade was formerly subordinate to the Red 1st Front Army, it was composed of the Red 25th Army under Xu Haidong. The Red 25th Army was formerly part of the 4th Front Army, and had been organized in the Dabie Shan mountain area, so all of the cadres were hometown boys.

#### **Rise to Staff Officer of the 3d Division Under Huang Kecheng**

In 1940 Hong Xuezhi went with Huang Kecheng's 8th Route Army southward into northern Jiangsu; he was later the deputy commander of Branch No. 5 of the Anti-Japanese University in Yancheng city under school commander Chen Yi.

In 1941, because of repeated Japanese mopping-up operations, the Branch No. 5 School could not remain in Yancheng. Hong was sent away to be the commander of the Yan-Fu [7776 7079] Military area. He was later appointed deputy chief of staff of the 3d Division, New 4th Army. The 3d Division of the New 4th Army was composed of units of the 115th Division of the 8th Route Army which had come south. Its division commander and concurrent political commissar was Huang Kecheng, deputy division commander was Zhang Aiping, chief of staff was Peng Xiong. In 1943 Peng Xiong was killed in battle and Hong was promoted to chief of staff of the 3d Division.

#### **Victory Over Japan, With the 3d Division to the Northeast**

When the War of Resistance was won, the KMT-CPC war began. At that time, the focus for both sides was the northeast provinces. Before Mao Zedong went to Chongqing to talk with Chiang Kai-shek, he instructed that cadres should be sent to the Northeast to start work, whether or not to send in the troops would be decided a bit later.

When the Soviet Red Army occupied the Northeast, about a thousand soldiers of the 8th Route Army, led by one Zeng Keli, the commander of a military subdistrict, took advantage of the chaos and caught a train from Shanhaiguan through Jinzhou to Shenyang. The people of Shenyang, who had not seen a Chinese soldier for some 10 years, welcomed them enthusiastically. The Russians, seeing the way things were, sent Zeng and one of their colonels by plane to Yanan to suggest that the Communist Party center immediately send someone in authority to the Northeast. Liu Shaoqi, then in charge of party center work, seeing this once-in-a-lifetime opportunity, sent a report out to Mao in Chongqing, and as quickly as possible transferred thousands of troops to the Northeast. The main forces transferred were five divisions from the 8th Route Army of Shandong, and the 359th Brigade of the 8th Route Army which had been about to deploy southward, plus, the largest contingent, the New 4th Army's 3d Division, which had four brigades. At that time Hong Xuezhi had already been promoted to deputy division commander and concurrent chief of staff of the 3d Division.

#### **Commander of the 6th Column of the Northeast Field Army**

In the Northeast Hong Xuezhi held the posts of deputy commander of the Liaoxi (western Liaoning) Military District and commander of the Heilongjiang Military



District. After the formation of the Communist's Northeast Field Army, he was appointed commander of the 6th Column. This column was the equivalent of an army, having under its command three divisions, nine regiments. Lin Biao and Lo Ronghuan [5012 2837 2719] were the commander and the political commissar of the Northeast Field Army. During the "Three Southward Crossings of the (Sunghua) River," the "Siping Street Battle," and other campaigns, the 6th Column under Hong Xuezhì was always the main force, having the most captures and kills, and also the most wounded and lost. In the two great Liao-Shen (Liao River-Shenyang?) and Ping-Jin [Beiping-Tianjin?] campaigns, Hong Xuezhì's 6th Column made outstanding accomplishments, and was one of the main fighting forces of the Northeast Field Army throughout this period.

#### **Fighting With the 4th Field Army to Guangdong**

In early 1949 Mao Zedong completed reorganization of the communist armies. The North Field Army became the 4th Field Army, having under it four corps [bing tuan]; each corps had under it three armies; each army commanded four divisions. Hong Xuezhì was the first deputy commander and concurrent chief of staff of the 15th Corps. The 15th Corps' commander and political commissar were Deng Hua and Lai Chuanzhu [6351 1278 3796].

By the end of that year the 4th Field Army's 15th Corps had fought its way to Guangdong, set up the Guangdong Military Region, with Ye Jianying as commander and political commissar. This was mostly in name only; Deng Hua and Hong were both listed as deputy commanders.

In the course of the KMT-CPC civil war Hong Xuezhì had literally fought from north to south, from the Heilong Jiang in the north to the Zhu Jiang [Pearl River] in the south, and piled up a great many victories for the Communist cause.

#### **Commander of the Rear Services Department for the Volunteer Army During the Korean War**

In the summer of 1950 the Korean war broke out. Mao figured there was an unwanted battle coming on that would be hard to avoid, and in order to meet any emergency, transferred to Liaoning the 13th Corps of the 4th Field Army which had been stationed in the central plains as a strategic special force. At the same time, Mao and Zhou Enlai were not at all confident that Huang Yongsheng, commander of the 13th Corps could wage a successful foreign war and so switched the commanding officers of the 13th Corps and the 15th Corps. At the same time they called up reserves to reinforce the 13th Corps. It was in this manner that Hong Xuezhì came to the Yalu River as deputy commander of the Northeast Border Defense Army, which was created out of the reorganized and reinforced 13th Corps. This Northeast Border Defense Army became the "Volunteer Army" that later crossed into Korea and joined the war.

In September 1950, the UN forces, primarily Americans, successfully landed at Pusan, turning the whole war situation about with one strike. On 30 September the UN forces took Seoul. By 19 October they were attacking Pyongyang and at the same time striking north via different routes. By the end of July [as published] the spearhead had stretched the eastern front all the way to the Yalu River. The Americans never planned to cross the Yalu, but Mao could not trust them, and after many days of crisis conferences and discussions, he decided to send his soldiers into Korea.

In the Communist Party center, actually the majority did not want to send in the troops, being afraid of getting burned in the process, losing the precious land they had fought so hard to win; even Lin Biao pleaded illness to avoid becoming commander of the Volunteer Army. Fortunately, the firebrand Peng Dehuai consented to take the command and so all of Mao Zedong's planning and commanding was not in vain.

In the latter part of October 1950, the CPC's "Volunteer Army" set out for Korea, with Peng Dehuai as commander and commissar, and Deng Hua, Hong Xuezhì, and Han Xianchu as deputy commanders. Under their command were six armies, 18 divisions, some 200,000 men. Later, these were augmented by four armies from the 9th Corps of the 3d Field Army. Mao had originally planned to use the 9th Corps to attack and, having conquered it, occupy Taiwan—but for now it went to Korea. The headquarters of the 13th Corps was changed to the Volunteer Army headquarters, and for Hong Xuezhì this meant a step up in grade.

In the headquarters of the Volunteer Army, Peng Dehuai had immense prestige. He combined the positions of commander, political commissar and party secretary in one person. Hong Xuezhì was solely responsible for rear services support work as deputy commander and later became rear services commander for the Volunteer Army. It is said that during this period Hong Xuezhì was the only person among the Volunteer Army headquarters personnel who had any influence at all upon Peng Dehuai. Perhaps they found something in common in their backgrounds, both having risen from the worker-peasant ranks, not sweating the small stuff, being straightforward in all things.

There was one other special person in the Volunteer Army headquarters, and that was Mao's oldest son, Mao Anying. Mao Anying came to Korea as a staff officer in the Volunteer Army and as an interpreter. But "the sons of kings die before they get to be kings," and Mao Anying was in Korea less than a month before he was killed during a U.S. bombing attack. But the death of Mao Anying still was connected in some way with Hong Xuezhì.

#### **Unable To Care for Mao Anying: Precursor of Future Troubles**

At the time, within the headquarters of the Volunteer Army, air defense work was the responsibility of Hong

Xuezhi. He had received wired instructions from Beijing that he must at all costs ensure the safety of Commander Peng and the headquarters from air attack. Hong in fact made meticulous preparations, had in fact instructed the concerned personnel that, if necessary, they should force Commander Peng into the air raid tunnel. Unfortunately, the communists of the early days of revolution were not, after all, any different from the ones who followed. Hong did not appoint anyone to look after Mao Anying's safety. He was just a bit negligent in regard to the "princely son" of the "commander in chief."

On 25 November 1950, the air defense lines sighted a U.S. reconnaissance plane. Hong Xuezhai immediately concluded that bombers could follow it, and gave the order that all personnel except those on duty should enter the air raid tunnels. At that time, Peng did not want to seek shelter, cursed as "cowards" the cadres who were urging him to go. Hong had no choice but to go personally to get Peng to move: He knew that for the moment everything depended on this one person, and if something should happen and he were lost, it would be all over. Peng was still unwilling to leave and swore at Hong: "You pock-faced bastard! (Hong had had smallpox as a child and his face still bore the scars), Why are you so afraid of dying?" Hong knew Peng very well. "It is not so much that I fear myself dying, but I do fear for your death." So saying, he ordered the people there to accompany Peng into the shelter.

It happened that Mao Anying had duty that day. He was young and eager and no one had directly ordered him into the shelter, and so he remained in the duty office. Hong and the others, through oversight lost everything, and did not take particular care of the "prince." After a while, four U.S. bombers flew across, dropped incendiary bombs, and the headquarters became a sea of flames: Mao Anying and another staff officer were buried beneath. At first Hong Xuezhai was unaware that Mao Anying had died. Looking through the ruins he excitedly said things like: "Blessed be Marx's soul in heaven! Commander Peng and the headquarters personnel were not hurt! We can win a great victory!" until someone told him that Mao Anying was killed in the bombing, then he shut up. Peng Dehuai was greatly troubled and for many days afterward was broken up and kept muttering over and over "Chairman Mao entrusted his son to me, how am I going to explain it to him?"

Mao Anying was born of Yang Kaihui. He had a difficult childhood. He was a graduate of the Soviet Military Academy. Mao Zedong had set great hopes on him. Mao had allowed him to go to the headquarters of the Volunteer Army to get some experience and political savvy so that he could be given greater duties in the future. Who would have thought he would die under the American bombs? Anying's death was a great blow to Mao Zedong, and in turn had a great influence on modern history. Some analysts have said that of Anying had lived, the mainland would still be under the leadership of a "Chairman Mao," and Lin Biao, Jing Qing, Hua Guofeng, and Deng Xiaoping would never have

become "successors." Considering the succession cases of Chiang-kuo in Taiwan, of Rajiv Gandhi in India, and Kim Chong-il in North Korea, the theory is not without its reasonableness.

Mao Zedong accepted the hard news, but from this time on, his attitude toward Peng Dehuai, Hong Xuezhai, and the others was not the best. Herein was buried the hidden link to the rectification suffered by Peng, Hong, and others. From Mao Zedong's viewpoint why should the headquarters take a bombing and all the ranks in the headquarters from the commander and deputy commander on down get away safely while only his own son has to be on duty and be killed? This he found hard to accept. In addition, Mao was always a suspicious person and in the future, if the day came when he had political differences of opinion, why he could naturally "settle accounts all at once." When Mao criticized Peng Dehuai at the Lushan Conference in 1959, in countering Peng's criticisms he said, "When I start something, I finish it. I had two sons: One was killed by bombs, one went insane, and I am left without issue." When he heard this, Peng felt guilty, and knew he had lost everything, and did not argue anymore.

#### **After the Korean War, First Deputy Commander of the General Services Department**

During the Korean war Hong Xuezhai was in charge of all rear support for the Volunteer Army. In modern warfare, the success of the war depends upon the success of rear support and supplies. When a high tide was reached in the war, some 1 million soldiers of the Volunteer Army were in Korea, and no fewer than 300,000 were directly under the rear services department: there were some 6,000 vehicles alone, plus several divisions of anti-aircraft artillery and several divisions of railroad troops. To make it possible to wage war on the 38th Parallel, the supply lines of the rear services departments could not be cut. Hong Xuezhai showed exceptional ability in these affairs, and became the father of modernization within the rear services departments of the communist armed forces. Prior to this, one could hardly talk of any rear services in the Chinese armed forces, much less of their modernization.

In July 1953 the war stopped in Korea. The Chinese Volunteer Army and the UN troops had fought to a standstill, and their accomplishments were comparable: Both had fought from the Yalu River to the 38th Parallel. After returning to China from Korea, Peng Dehuai was promoted to minister of national defense in charge of the daily work of the Central Military Commission. Hong Xuezhai was made first deputy commander of the General Rear Services Department. His commander was his old superior officer, Huang Kecheng.

#### **1955: Promoted to General**

In 1955 Hong received his promotion to full general, an "August 1st" award first-class, an "Independence and Freedom" award first-class, and a "Liberation" award

first-class. Peng Dehuai became the second marshal, second only to Zhu De; Huang Kecheng became a senior general [full general of the army], and Hong Xuezhì, and the other members of the "rebellion plot" at Ye'nán Anti-Japanese University—Xu Shiyu, Wang Jian'an, Zhan Caifang, and others—all received their full general and lieutenant general ranks. In September 1956 at the Eighth National Party Congress, Hong Xuezhì was elected alternate Central Committee member, which for a man of his rank was an "exceptional honor." In December of that year, when Huang Kecheng was appointed chief of staff, he (Hong) was appointed director of the General Rear Services Department, with Lieutenant General Yu Chiuli as political commissar.

#### **Support of Peng Dehuai; Loses the High Office**

In July 1959 the party Central Committee called the Lushan Conference. The impact of this conference on Hong Xuezhì's political future was very great, even though he did not attend the conference. During the Lushan Conference, because Peng Dehuai opposed the creation of the communes and the Great Leap Forward, he raised a great many complaints to Mao Zedong, and Mao labeled him as the leader of an "antiparty clique." Following this, the entire army and the entire party engaged in a huge criticism of Peng. Hong Xuezhì, not fearing the powers that be, openly supported Peng and was criticized in turn, and in October was relieved of his duties as chief of rear services. He was succeeded by Lieutenant General Qiu Huizuo, who was to be part of Lin Biao's sworn following. Lin Biao took over for Peng Dehuai and became minister of defense in charge of the daily work of the Central Military Commission. Full General Deng Hua, former deputy commander of the Volunteer Army and commander of the Shenyang Military Region, was demoted. At this point, the high-ranking leaders of the former Volunteer Army had almost all been demoted.

For almost the next 20 years, the honest and youthful Hong Xuezhì lived under this censured condition. He was posted to Jilin Province as chief of the agricultural office, then was chief of the heavy industry office, which, for a military man was to be "a hero with no way to show his abilities." It was in this manner that he passed his days in boredom; during the Cultural Revolution, because he had been demoted long ago and was now far from the center of things, he did receive a bit of criticism, but made it through that period without much trouble. During these long drawn-out years, this formerly powerful general who had commanded hundreds of thousands of troops could only do his work as factory manager on a small distant village with a mind free of such worries.

#### **After Mao: Staging a Comeback**

It was only a year after Mao's death, in 1977 at the 11th party congress that Hong Xuezhì reappeared and was elected a member of the party Central Committee. Because he had been ousted early on and had not been

involved in intraparty struggles during the Cultural Revolution, he was a person all sides could accept. In addition, his military accomplishments were well known, he was well qualified, and was in good health. So, in 1977 he was given the important post of the National Defense Industries General Office. In 1980 he was appointed director of the Logistics Department of the PLA [People's Liberation Army] and concurrent political commissar. In 1982, when Deng Xiaoping became head of the Central Military Commission, he appointed Hong as vice secretary of the Central Military Commission. At that time Yang Shangkun was secretary of the Commission. Hong had never served under Yang, and so Deng obviously appointed him as vice secretary to act as a check on Yang.

#### **Appointed Director of Logistics, a Multitude of Accomplishments**

Having spent some 20 years in "deep freeze," Hong Xuezhì was painfully aware of the passage of time, that he was becoming old, and, now that he was in the position of director of logistics, he decided to accomplish something worthwhile. At that time, the PLA logistics system had been wrecked by the Cultural Revolution, and was badly in need of repair. Under Hong's command, the General Rear Services Department organized 10 large combined-investigation groups and sent them out to inspect most of the major border defense and coastal defense units, and then came up with a plan. Hong took funds from the extrabudgetary resources of the Rear Services Department (income from the sale of arms abroad, and so forth), and used them to correct some 5,000 problems for the border and coastal defense troops in the areas of housing, water and electricity, transportation, hygiene, and so forth. This was warmly welcomed by the troops concerned, and generally stabilized the attitudes of the border and coastal defense troops.

In 1985 at the NPC, Hong Xuezhì was taken off the Central Committee, but was made a member of the Central Advisory Council.

#### **Restored to Full General**

In April 1988 Hong Xuezhì was elected to the State Military Commission at the Seventh NPC. In September, when the party central reinstituted the military rank system and appointed the first 17 full generals, Hong was ranked first. He had first received his stars in 1955, and after 33 years was still a full general. Qin Jiwei was promoted to lieutenant general in 1955, and thus was second in rank to Hong. As to the others, the highest ranking men had made major general or full colonel in 1955, the lowest ranking had been captains in 1955. Chief of Staff Qi Haotian had been a senior captain in 1955. From this can be seen the differences in service among the generals in the armed forces.

### Hong Xuezhi Before and After 4 June

During the democracy movement on the mainland in 1989, it was well known in Beijing that Hong Xuezhi, Qin Jiwei, Li Desheng, and other high-ranking officers were sympathetic to the movement; in fact, it was once rumored that Hong had been purged because of this. However, it later became clear that his position had not weakened, that he, Qin Jiwei, and Li Desheng had all been part of the leading core group of the Central Military Commission. It is said that unity among the leading cadres of the armed forces must be maintained, and that this contributed to the stability of the overall situation.

Hong Xuezhi rose up through the Red 4th Front Army, and is a hometown boy and comrade-in-arms with many of those who served under Deng Xiaoping. Of those on active duty at present, he is the general with the longest service record, was one of the army-level cadres during the Long March, and is the general who made his grade in 1955. All of this plays to his advantage in the communist army which so emphasizes rank, background, and experience. He was a commander during the War of Resistance in the 115th Division and in the New 4th Army, and served as commander at the army and corps levels in the 4th Field Army. In addition, he was a deputy commander in the Volunteer Army and director of logistics. In military circles, his is the widest breadth of experience. He did not serve in Deng Xiaoping's 129th Division—the 2d Field Army command system—but has close connections with those commanders. Historically, he never served directly under Deng Xiaoping or Yang Shangkun, but is on an equal footing with General Wang Zhen. All of these factors play an important role.

Hong Xuezhi was deputy secretary of the Central Military Commission for nine years, and has exerted a great deal of influence upon the current military situation and the interpersonal relationships within the military. He is now 77 years old, but still in good health, and is still younger than Deng, Yang Shangkun, or Wang Zhen. Judging from the situation today, Hong and Qin Jiwei, Li Desheng, and a few others have become the power brokers who balance out the "Yang family of generals." Deng Xiaoping obviously has a desire to allow Hong to unify factions within the military. We can guess that as long as Deng remains healthy, the high-ranking generals who came out of the old Red 4th Front Army—Hong Xuezhi, Qin Jiwei, Li Desheng—will be used by Deng as the main force to counter the "Yang family of generals." They will also be used by Deng to retain his position of

power in the party center, and in the highest ranks of the military. However, when Deng finally does leave history's stage, their roles cannot be underestimated.

### Stripped of Military Authority, Appointed CPPCC Vice Chairman

Analyzing it in this manner, Hong Xuezhi being relieved of his position as member of the Central Military Commission, and then being elected vice chairman of the Chinese People's Political Consultative Conference [CPPCC], was a "friendly dismissal from power." Hong Xuezhi's being gradually squeezed out of the highest echelons of military power obviously does not mesh with Deng Xiaoping's requirement for "stability among the high military cadres," and its significance is more than ordinary. More than likely Hong's influence and his stance among the military is already more than the "Yang family of generals" can accept.

What is interesting is this: This post of vice chairman of the CPPCC that Hong has taken was originally held by Yan Mingfu, one of Zhao Ziyang's arch supporters. In this CPPCC election there were more than 100 people's representatives who, possibly because they felt sorry for Yan Mingfu, cast dissenting ballots against Hong. That was a big mistake. According to all currently available material, Hong Xuazhi was in no way responsible for the 4 June incident. In fact, it is even possible that at the time he opposed the suppression and for this was forced out of the Central Military Commission. However, even in this situation, a clear-sighted person can recognize Hong's strength of character. As far as Hong is concerned, it might not be such a bad situation after all.

### Conclusion

Contemporary mainland politics has often shown that power awarded or bestowed is not necessarily effective at the critical time, but in a time of upheaval, power that has stood the test of time and circumstances can play a significant role in the critical moment. This is the fundamental difference between "real power" and "nominal power." In a word, whether this "apparent rise—actual fall" of Hong Xuezhi, one of the most capable of the Communist generals, has actually greatly harmed his broad-based power, and whether his equanimity of spirit born of previous rises and falls still holds firm remains to be seen. Although Hong Xueuzhi is 77 years old, he is still five to eight years younger than Deng Xiaoping, Yang Shankun, and Wang Zhen, and this just might be one of his "superiorities." Perhaps it is not yet time for Hong Xuezhi to leave the political stage. Under some certain circumstances, he may still have a role to play.

## SOUTHWEST REGION

**Yunnan Adopts Rules on Assemblies, Demonstrations**

90CM0222A Kunming YUNNAN RIBAO in Chinese  
28 Apr 90 p 2

[Text] Adopted by the 11th Session of the Standing Committee of the Seventh Yunnan People's Congress on 27 April 1990.

**Article 1** These regulations have been formulated in accordance with Article 35 of the "Law on Assemblies, Rallies, and Demonstrations of the People's Republic of China" (hereafter abbreviated as "Law on Assemblies, Rallies, and Demonstrations") and in light of the realities in Yunnan Province in order to preserve the citizen's right to assemble, rally, and demonstrate in accordance with the law and to maintain social stability and public order.

**Article 2** The "Law on Assemblies, Rallies, and Demonstrations" and these regulations shall apply to assemblies, rallies, and demonstrations held within the jurisdiction of Yunnan Province.

**Article 3** The citizen's right to assemble, rally, and demonstrate shall be safeguarded by people's governments at all levels as provided by law.

**Article 4** In exercising his right to assemble, rally, and demonstrate, the citizen shall obey the Constitution and the law. He shall not violate the basic principles set forth in the Constitution. Nor shall he damage the interests of the state, society, or the collective or the legitimate freedoms and rights of other citizens.

**Article 5** Assemblies, rallies, and demonstrations shall be conducted peacefully without resorting to or inciting violence.

**Article 6** The department in charge of assemblies, rallies, and demonstrations shall be the public security bureau and urban public security branch bureau of the county (municipality) where the event takes place. When a rally or demonstration passes through two or more counties (municipalities), the department in charge shall be the public security agency one level above the public security organs of the jurisdictions which the rally or demonstration passes through.

The department in charge of assemblies, rallies, and demonstrations held in the Wuhua, Panlong, Xishan, and Guandu districts in Kunming shall be the public security bureau of Kunming.

**Article 7** Organizers of an assembly, rally, or demonstration shall put someone in charge. This individual, or leader, shall apply or reapply on behalf of the group, organize the event, and shall be responsible for maintaining order. He shall also assume legal responsibility for the behavior of the group.

In applying to hold an assembly, rally, or demonstration, the leader shall present his residency identification and work permit, student identification, or other valid credentials. Five days before the assembly, rally, or demonstration he shall, in person, submit an application to and complete an application registration form at the department in charge. The application shall state clearly the purpose, format, slogans, and number of participants (including the number of people keeping order and the uniform signs) of the assembly, rally, or demonstration, as well as the kind and number of sound equipment, the beginning and finishing times, locations (places where the group assembles, passes through, stops, and disperses), procession route, and the name, occupation, and address of the leader.

The department in charge shall not accept any application by mail, telegram, or telephone.

**Article 8** The citizen shall not launch, organize, or participate in an assembly, rally, or demonstration in a county or municipality which does not contain his abode. Abode above refers to the county (municipality) where the citizen maintains his permanent registered residency or where he has lived continuously legally for at least half a year.

**Article 9** When the purpose of an assembly, rally, or demonstration is to demand that a specific problem be solved, the department in charge may inform the agency or unit involved so that it can discuss the matter with the leader of the assembly, rally, or demonstration to find a solution. The assembly, rally, or demonstration may also be postponed for five days.

Upon being notified by the department in charge, the agency or unit involved shall begin consultations immediately and shall inform the department in charge of the outcome of consultations four days before the postponed date of the assembly, rally, or demonstration.

**Article 10** After receiving the application to hold an assembly, rally, or demonstration, the department in charge shall send a written decision to the leader of the organizers two days before the event takes place, either approving or disapproving it. If permission is not granted, a reason shall be included in the written notice. Failure to reply by a specified date shall be tantamount to approval.

When the written decision approving or disapproving the assembly, rally, or demonstration is delivered, the person who takes delivery shall put his signature on the document. If nobody is available to take delivery or when the person who takes delivery refuses to sign, the deliverer shall invite a witness to be present and explain the situation. Along with the date of delivery, he shall also state on the letter of delivery that nobody can be found to take delivery or that the person who takes delivery refuses to sign. Once signed by the witness and deliverer, the letter of delivery shall be regarded as having been delivered.

**Article 11** The department in charge shall send people's police to maintain traffic order and social order at legally held assemblies, rallies, and demonstrations in order to smooth their conduct.

**Article 12** Nobody shall disrupt, attack, or sabotage legally held assemblies, rallies, or demonstrations using violence, intimidation, or other illegal means.

**Article 13** The department in charge may alter the time, location, and route of an assembly, rally, or demonstration when approving the event or after approving the event, should any one of the following conditions apply. The notice of alteration shall be delivered to the leader of the assembly, rally, or demonstration the day before the event.

1. When the assembly, rally, or demonstration is to be held during a rush hour in a city or at a key hub of communications.

2. When the location of the assembly, rally, or demonstration is not appropriate for the number of participants.

3. When the assembly, rally, or demonstration coincides in time, place, or route with a major event involving foreign nationals or organizations, a major traditional national celebration, a large-scale athletic competition, or other major activities.

4. When the assembly, rally, or demonstration is to take place at or pass through an area where a law-and-order disaster or natural disaster has occurred, where relief work is going on, or where hazardous conditions cannot be removed or where normal order cannot be restored before the event takes place.

5. When other conditions exist that will prevent the smooth conduct of the assembly, rally, or demonstration or seriously affect traffic flow or social order.

**Article 14** An assembly, rally, or demonstration shall proceed in accordance with details approved by the department in charge. Its leader shall designate a specified number of personnel to maintain order and shall keep in touch with the people's police maintaining order at the site.

The leader of an assembly, rally, or demonstration and order-maintenance personnel shall wear distinct symbols. Samples of such symbols shall be sent to the department in charge for recording purposes one day before the assembly, rally, or demonstration.

**Article 15** Participants in an assembly, rally, or demonstration shall not violate law and order regulations, engage in criminal activities, or incite criminal activities.

**Article 16** Participants in an assembly, rally, or demonstration must submit to control by people's police, preserve public security and order, and comply with the following:

1. They are strictly prohibited from carrying weapons, controlled tools, flammable materials and explosives, and other materials that may endanger public security.

2. They shall not announce, shout, or broadcast speeches and slogans inconsistent with the purposes of the assembly, rally, or demonstration.

3. They shall not carry, wear, or distribute flags, banners, and posters inconsistent with the purpose of the assembly, rally, or demonstration.

4. They shall not draw, write, distribute, and paste posters and other publicity materials along the way.

5. They shall not occupy or destroy lawns, parks, and other public facilities.

6. They shall not block vehicles, obstruct traffic, or smear and endanger means of transportation and transportation facilities.

7. They shall not incite others to join the ranks of the assembly, rally, or demonstration.

8. They shall not slander or insult other people.

**Article 17** With the exception of those approved by the provincial people's government, no assembly, rally, or demonstration shall be held within 10 to 300 meters of the following sites in the province:

1. State guesthouses

2. Key military installations

3. Airports, railway stations, and ports

4. Prisons and detention centers

The actual off-limits distances around the above sites shall be proposed by the department in charge for the jurisdiction where the assembly, rally, or demonstration is to be held for approval by the provincial people's government.

**Article 18** No assembly, rally, or demonstration shall be held at Dongfeng Square in Kunming without the permission of the Kunming people's government.

**Article 19** To hold an assembly, rally, or demonstration in a first-front border county or municipality shall require the approval of the public security organ directly above the public security organ of the county (municipality) in question.

**Article 20** To maintain order in the course of an assembly, rally, or demonstration, public security organs may set up temporary security lines in the vicinity of the following units. Trespassing beyond the lines is prohibited unless approved by the people's police:

1. CPC provincial, prefectural, autonomous prefectural, municipal, or county committees

2. Provincial, prefectural, autonomous prefectural, municipal or county government departments and military organs

3. Radio stations, television stations, national treasury, centers of posts and telecommunications

4. Production departments that supply water, electricity, and gas, and other major warehouses

5. Foreign organizations in Yunnan

Warning signs shall include warning posts, railings, ropes, and parade guard lines, all bright yellow in color.

**Article 21** To ensure the smooth advance of a legally held rally or demonstration, the people's police responsible for maintaining traffic order may alter relevant traffic regulations temporarily. A rally shall not proceed along the approved route and the leader of the people's police on site is authorized to alter the route of the rally if one of the following has occurred during the rally:

1. A serious traffic accident or serious traffic congestion
2. A serious criminal case or a major law-and-order disaster
3. A major natural disaster
4. Other occurrences with potentially dangerous consequences

**Article 22** When any one condition listed in Article 27, Section 1, of the "Law on Assemblies, Rallies, and Demonstrations" or in Articles 16, 17, 18, 19, or 20 of these regulations is being violated, the people's police shall immediately put an end to the violation. If the violators refuse to stop, the leader of the people's police on site is authorized to terminate the assembly, rally, or demonstration. When such an order is resisted, the leader of the people's police on site is authorized to take the necessary measures to disperse the crowd by force in accordance with the relevant state regulations. People who refuse to disperse shall be removed from the scene by force or taken into custody immediately.

If deemed necessary by the public security organ, people removed from the scene of an assembly, rally, or demonstration may be summoned to court as the law provides. Those who should be held legally responsible shall be handled in accordance with applicable legal provisions.

Individuals taken into custody shall be dealt with in accordance with "Arrest and Custody Regulations of the People's Republic of China."

**Article 23** When a citizen launches, organizes, or participates in an assembly, rally, or demonstration in a county (municipality) other than the one where he resides, the public security agency is authorized to take him into custody or repatriate him by force to where he came from. The forcible repatriation shall be carried out by the public security agency of the jurisdiction where the assembly, rally, or demonstration is to be held.

**Article 24** Violators of the "Law on Assemblies, Rallies, and Demonstrations" and these regulations shall be held legally responsible.

**Article 25** The "Law on Assemblies, Rallies, and Demonstrations" and these regulations shall apply to foreigners who intend to hold an assembly, rally, and demonstration within the jurisdiction of Yunnan Province.

A foreigner who wishes to apply to hold an assembly, rally, or demonstration shall submit an application to the department in charge, presenting his residency permit.

Foreigners shall not take part in an assembly, rally, or demonstration held by Chinese citizens without the permission of public security organs.

**Article 26** The interpretation of these regulations for actual implementation purposes shall be the responsibility of the Public Security Department of Yunnan Province.

**Article 27** These regulations shall go into effect on the day of promulgation. On the same day, the "Provisional Regulations of Kunming on Rallies and Demonstrations" approved by the 26th Session of the Standing Committee of the Sixth Yunnan People's Congress on 16 February 1987 shall be null and void.

## NORTHWEST REGION

### Xinjiang Public Health Safeguarded in Nuclear Tests

90CM0230A Urumqi XINJIANG RIBAO in Chinese  
26 Apr, 3 May 90

[Article by Ai Min (5337 3046): "The Orders From Zhongnanhai Are That Vigilance Is To Be Maintained—Report on the Threat of PRC Nuclear Testing to the Environment and Public Health"]

[26 Apr 90 p 2]

[Text] Ever since the cloud from the explosion of the PRC's first atomic bomb mushroomed over an ancient expanse of wasteland in the western part of China on 16 October 1964, the PRC has had nuclear weapons with which to uphold its state sovereignty and safeguard world peace.

As the first foreign country to detect the atmospheric radioactive fallout from this explosion, Japan reached the conclusion from the tiny amount of fallout monitored that this was a nuclear test of very small explosive force.

Although the Japanese scientists' estimate was probably accurate, a point that they underestimated was the enormous efforts made by the CPC and the government of the PRC to keep the possible contamination from this



nuclear test to a minimum, in order to protect the environment and public health in the vicinity of the test site.

All those with even a little knowledge of nuclear protection know that there are only four destructive, fatal, or harmful effects from atmospheric nuclear explosions, i.e., ray radiation, shock waves, early-stage nuclear radiation, and radioactive fallout. Generally speaking, the first three affect only the area within a radius of a few to some dozens of kilometers at the instant of the explosion, while the last one is local fallout of larger particles for only a few hours within a range of some dozens of kilometers upwind and a little over 100 kilometers downwind. Obviously, there is basic safety beyond some dozens of kilometers upwind and a little over 100 kilometers downwind from the center of a nuclear explosion.

At the beginning of the PRC's atomic bomb development, party and national leaders clearly stipulated that atmospheric nuclear tests would be conducted only in places that "were uninhabited, away from sources of water, without vegetation, and with few mineral resources, wide-open spaces, and far from residential areas." The nuclear test sites that were later chosen were vast open deserts, remote and uninhabited, away from sources of water, and wide-open spaces without vegetation, with circumferences of more than 200,000 square kilometers. The centers of explosions at nuclear test sites were over 150 kilometers upwind and 400 kilometers downwind from the nearest inhabited areas. One nuclear power has a number of residential areas within 100 kilometers of a nuclear test site, and a famous city of over 60,000 people only 105 kilometers away, while another has a test site only 50 kilometers west of its third-largest river and 80 kilometers east of a city with tens of thousands of people. In comparison, the PRC's nuclear test sites are over three times farther away from the nearest inhabited areas than those of the same class in these two nuclear powers, and are the farthest from inhabited areas of any nuclear test sites in the world.

In order to protect the natural environment and public health, the CPC and the government of the PRC formulated a "necessary and limited" nuclear testing policy of few tests with low explosive force, premised on ensuring the fulfillment of our nuclear testing objectives. Up to 1980, while the number of atmospheric nuclear tests conducted by the two major nuclear powers had accounted for 45.6 percent and 33.6 percent, respectively, of all such tests throughout the world, the PRC's had accounted for only 5.2 percent and, while the atmospheric nuclear explosive force of the two major nuclear powers had accounted for 25.4 percent and 65.5 percent, respectively, of all such explosions throughout the world, the PRC's had accounted for only 3.8 percent.

The CPC Central Committee and the State Council have paid close attention to the issue of environmental protection in the vicinity of nuclear test sites and in affected areas, and former Premier Zhou Enlai issued special orders that protection against radioactive pollution from

nuclear testing must be "absolutely sure and reliable." As atmospheric nuclear testing is apt to cause pollution due to meteorological fluctuations, test controllers have followed Premier Zhou's orders by conducting them only under the most favorable meteorological conditions of clear skies and gentle breezes in the vicinity of test sites and in affected areas, in order to absolutely prevent any radioactive pollution caused by spreading or settling of "fallout ash," due to sudden changes in wind speed or direction or by being carried in clouds, rain, snow, or hail. The concerned departments have not only taken many prevention steps, but have also made good emergency plans. Hou Jiali [0186 0116 4409], a research fellow from the Military Medicine Research Institute in the Xinjiang Military District who helped monitor the PRC's first atomic bomb explosion, remembers the many motor vehicles and first-aid personnel that were assembled at their monitoring site, which was situated in a residential district 400 kilometers downwind from the center of the explosion. They were deployed according to the instructions of the CPC Central Committee and the State Council in order to be ready at all times to move the residents to safe areas if local radioactive fallout spread downwind. Hou Jiali said that they reported directly to Beijing that they had detected no local fallout, in order to set the minds of the leading central authorities at rest. He said that the party, government, and concerned departments always keep the safety and health of all nationalities "in mind" during each nuclear test.

### [3 May 90 p 2]

[Text] A key factor in the solemn proclamation of the government of the PRC to halt atmospheric nuclear testing in March 1986 was that atmospheric testing polluted the environment and public health more than underground or underwater testing. In fact, nuclear testing in the PRC was shifted from atmospheric to underground testing in the early 1980's.

Most of the pollution to the environment in the vicinity of test sites and to public health throughout the world from atmospheric nuclear testing comes from smaller particles of radiation fallout produced during explosions. As opposed to larger particles that settle near the center of explosions, these smaller particles circle the earth at the same altitude with upper air currents for long periods of time and they settle slowly. Most of the monitoring reports of atmospheric nuclear tests conducted by various countries are measurements of these "wind-carried particles." Naturally, atmospheric nuclear testing by any country in the world causes global radiation-fallout pollution for the whole world, and for those regions at the same altitude in particular. Thus, questions about whether the pollution from atmospheric nuclear testing is higher in the vicinity of PRC nuclear test sites and for residents in the Xinjiang region than in other regions must be answered by radiation-monitoring departments.

Thanks to the concern of the CPC Central Committee and the State Council, four radiation-monitoring centers

were set up in Xinjiang, and about 10 monitoring sites were also set up in residential districts near nuclear test sites in the early stages of PRC nuclear testing. The specialists in radiation science who converged on Xinjiang from all over China have been vigilantly monitoring every slight fluctuation in radiation levels in all areas, for over 20 years without interruption.

At the Xinjiang Medical Radiation-Protection Supervision Clinic, which can be called the main force of these "guardian spirits" (radiation-monitoring sites) that can be found everywhere both north and south of the Tianshan Mountains, specialists bustle about everywhere in the vicinity of the nuclear test sites and at every monitoring center and site on both sides of the Tianshan Mountains. Having monitored the radiation content of atmospheric fallout, the air, the soil, the water, food, and human skeletons in these regions for over 20 years, they hold that the level of global radiation-fallout pollution in all areas of Xinjiang, including that in the vicinity of nuclear test sites, is far lower than normal internationally set domestic standards, and is even slightly lower in some aspects than those in other provinces and regions in China. The global radiation-fallout content from PRC nuclear testing is even less in the vicinity of test sites and in all areas of Xinjiang. A doctor who is a deputy director

of the Supervision Clinic came up with the easily understandable analogy that "the radiation content from nuclear testing in Xinjiang is thousands of times less than that from a common chest X-ray."

Why is the global radiation-fallout pollution so small in Xinjiang? Hou Jiali, the research fellow from the Military Medicine Research Institute in the Xinjiang Military District (who is also deputy director of the PLA [People's Liberation Army] Defense Special Atomic Medicine Group), explained it as follows: Most of the man-made nuclides from nuclear explosions are short-lived, radiation fallout being no exception. Since it constantly diffuses, thins, and decays, and its radioactivity gradually decreases, as it circles the globe and settles, the slight amount of pollution that it causes does not pose a threat to the environment and public health. Of course, this is only relatively speaking because, if all countries carried out unlimited atmospheric nuclear testing, the pollution would become increasingly heavier.

As all of Xinjiang's vast areas are situated upwind from nuclear test sites, the amount of radiation fallout that settles on both sides of the Tianshan Mountains after circling the globe for a week, is naturally infinitesimal.

**Editorial on Plastics Group's Investment in PRC**  
*90CE0198A Taipei CHING CHI JIH PAO in Chinese*  
*11 Apr 90 p 2*

[Editorial: "Views on Taiwan Plastics Group's Investment in Mainland China"]

[Text] Wang Yung-ching [3769 3057 1987], chairman of the board of directors of the Taiwan Plastics Group, on 9 April published another special article "On How the Petrochemical Industry Leaves Its Roots in Taiwan," urging the government to legalize as soon as possible the practice of businessmen going to Mainland China to invest. He suggested that the petrochemical industry centralize its upstream and downstream production in the special economic zones of Mainland China and remit its business profits back to Taiwan so as to really keep its roots in Taiwan. After this article was published, all fields responded vigorously. Some were for it and some against, each having their own reasons; but government officials were all against it. Aside from opposing, no one mentioned anything about how to improve the current investment environment to give enterprises a chance to survive and develop. As for businessmen and scholars, most of them were sympathetic and approved of the Taiwan Plastics Group's investment in Mainland China, but they did not make any suggestions either as to how to keep the roots of enterprises in Taiwan while going to invest in Mainland China so that Taiwan's industry will not be emptied. Today we will present our views in these two areas.

First, we will talk about the opposing opinions. Wang Chien-hsuan [3769 1696 3551], spokesman of the Ministry of Economic Affairs and deputy director of the administrative department, pointed out that Wang Yung-ching blamed the government for failing to protect enterprises' legal plant construction after the Sixth Light Industrial Plant construction plan was obstructed. He admitted that the government indeed had failed to make essential improvement in investment environment. But he thinks that the reason that the Taiwan Plastics Group could become what it is today is because Taiwan has raised it like its parents. So it should not abandon its parents just because they have some faults. Wang Yung-ching should be able to understand that the influence of the Taiwan Plastics Group's move on domestic petrochemical industry will have a great impact on the domestic economy. Wang Yung-ching should reconsider. He hoped that Wang Yung-ching can show the responsibility of a large enterprise to its country, have a sacrificing spirit, and give priority to national interests. Chang Lung-sheng [1728 7127 4141], vice chairman of the Economic Construction Commission, also urged large entrepreneurs at home to establish a sense of responsibility to society instead of just running away. He wished that entrepreneurs could stay and fight along with our compatriots. These two deputy senior officers' views are very correct in theory. Enterprises received many favors from the government in the past. After they are fully grown, they should return some favors to society. But in reality, the precondition for enterprises' feedback to society is an environment which

allows enterprises to continue to survive and develop. Take the Taiwan Plastics Group's investment in the Sixth Light Industrial Plant, for example. After it was approved by the government more than three years ago, the Taiwan Plastics Group has purchased technology and equipment from abroad, costing a great sum of money. But the site of the plant cannot be obtained because local people oppose it for the sake of opposing. This has delayed the construction of the plant. Investment opportunity has a time limit. It cannot be put off again and again. What kind of responsibility did government authorities actually assume while the Taiwan Plastics Group was obstructed in obtaining the site of the Sixth Light Industrial Plant? Let's forget about the Sixth Light Industrial Plant. Let's talk about the Fifth Light Industrial Plant, which is a state-run enterprise of the China Petroleum Company. After everything was ready, it started to build a plant within its own plant, so there was no problem about the land. But the ground-breaking project of the plant construction could not be carried out due to repeated oppositions of local residents. Negotiations were carried out one after another, and they dragged on for years. It is all right for state-run businesses to lose money because the treasury can support it, but once private enterprises miss the business opportunity, they cannot survive. Under such an investment environment, even if enterprises want to assume social responsibility and return favors to society, they do not have the opportunity to do so. Because of this, we suggest that instead of blaming the businessmen, the government should take actions immediately to improve investment environment. Who would want to run away if our investment environment is more favorable than that in other areas? President Li Teng-hui announced on last Monday that in the coming eighth term of presidency, he will use the first three years to break through the bottleneck of political and economic problems facing us now, and the second three years to open up a new situation and fulfill historical tasks. We wish that the whole nation from the leadership to the masses will work together with one heart and unite as one to support the government in overcoming current political and economic problems in the first three years. To restore social stability, rebuilding a good investment environment should be a task of top priority.

Second, we will talk about the question of how to keep the roots of the petrochemical industry at home. Wang Yung-ching pointed out that if petrochemical industry owners go to invest in Mainland China and remit their business profits back home, they will be leaving their roots in Taiwan. Hsu Kuo-an [1776 0948 1344], vice minister of Economic Affairs, said that it is very hard to agree with the logic that the roots are left in Taiwan while their light oil splitting plants and oil refineries have all gone to the mainland. We also agree with Vice Minister Hsu's opinion. But we should look at the issue after breaking it down:

1. The Taiwan Plastics Group's investment in Mainland China really has not much to do with whether or not its roots are left in Taiwan. If Taiwan's investment environment is good, even if the Taiwan Plastics Group does not

invest at home, other people will invest. The key is whether or not Taiwan can quickly improve domestic investment environment.

2. In the past two years, many downstream industries of domestic petrochemical industry have gone to invest in Mainland China. The investment of the Taiwan Plastics Group in the upstream petrochemical industry is to provide for the needs of downstream petrochemical industries. The mainland has a market. If its investment environment is not bad, people will go to invest even if the Taiwan Plastics Group were not going. As we understand that in the past few years Mainland China's petrochemical industry has developed rapidly. As of the end of 1989, the energy output of ethylene, which is the basic raw material of the mainland's petrochemical industry, reached 2 million metric tons, more than 1-fold higher than our energy output. Besides, many new plants are still under construction. On the contrary, Taiwan's ethylene production has stagnated in the past five years. It even declined last year. When the construction of the fifth and sixth light industrial plants will start is still undecided. How can we stop the Taiwan Plastics Group from going to invest in Mainland China?

The Taiwan Plastics Group's investment in Mainland China has no direct bearing on whether or not the roots of the petrochemical industry are left in Taiwan. However, we still hope that the Taiwan Plastics Group can live up to the following two points which will help the future development and expansion of Taiwan's petrochemical industry. This is also a feedback of the Taiwan Plastics Group to Taiwan's society.

First, the Taiwan Plastics Group invests in the construction of light oil splitting plant and oil refinery in Mainland China in order to meet the needs of downstream processing industries which have already gone to invest in Mainland China. One of its purposes is to protect the processing technologies which have been cultivated over the years at home so that they will not be exposed to the outside; another purpose is to unite Taiwan's upstream and downstream petrochemical industries investing in Mainland China to maintain greater competition. We hope that after he obtains the decision-making power in the sales and transportation of his products, Wang Yung-ching can go one step further and put the petrochemical industries on both sides of the straits under one system to complement and make up for each other's deficiencies. Especially when Taiwan's call for environmental protection is so strong that it cannot be overcome, the basic and intermediate raw materials of the mainland may be shipped back to Taiwan to complement each other.

Second, after Taiwan's wage and currency increased sharply, the downstream processing industries of the petrochemical industry whose products are mostly low in added-value cannot continue to survive. We hope that with its experience, manpower, and financial resources, the Taiwan Plastics Group should help domestic downstream petrochemical industries develop high value-added products for engineering and industrial uses, and

encourage domestic petrochemical industry to upgrade, surpass the petrochemical industry of the mainland and avoid face-to-face competition with the cheap-labor processing products.

### Unification Issue Not Comparable to Germany, Korea

90CM0176A Taipei TZULI WANPAO in Chinese  
20 Apr 90 p 5

[Article by Li You-feng: "The Taiwan-Mainland Situation Is Not the Same as East-West Germany or North-South Korea"]

[Text] The question of German unification has been accelerating, and there is now more and more continuous clamor concerning the Korean peninsula.

These two unification issues have stimulated those elements in Taiwan who have "unification" as the goal, who now feel that the question of unification between the two shores of the Taiwan Strait should also see early fruition.

Yet, although the Taiwan-mainland relationship may resemble superficially the other divisions, in actuality, it is greatly different and cannot be regarded in the same light. The reasons are as follows:

#### 1. Different Factors Created The Partitions

The splits between East and West Germany and North and South Korea were the result of World War II and the superpower struggle between the United States and the USSR. They came about from international circumstances beyond the lands in question. But the situation concerning Taiwan and the mainland came about from the long-term struggle between the Nationalist and Communist Parties. Its factors are internal to China (even today's external influences are secondary and not primary). To put it bluntly, had the Nationalist government not lost the confidence of the people on the mainland before 1949 and, after all-out conflict with the Communists, been chased to Taiwan, there would not have been such a "split" today. In other words, after the People's Republic of China was established in 1949 on what had been the turf of the Republic of China, the Republic of China was forced to evacuate to Taiwan, with its authority limited to Taiwan, the Pescadores, Quemoy, and Matsu, and nowhere on the mainland. This is an entirely different situation from that of the Germans and the Koreans. Nobody "chased anybody away" there; they were split into separate countries by the actions of the superpowers. Now the international situation has changed and it is understandable that unification would be an issue. But the Nationalist government was nearly obliterated on the mainland at the time and only through the acceptance and support of the people of Taiwan was it able to maintain its political authority. Under such a "fleeing" status, there is no resemblance to East Germany reforming its government under popular demand

to complement that of West Germany. Should the Chinese Communist position remain inflexible, "unification" becomes synonymous with "surrender." For this reason, one cannot equate it with the hopes for unification by the Germans. The people of Taiwan have no historical obligation to bear the responsibility for the Nationalist defeat by the Communists on the mainland.

## 2. The Duration of the Partition Is Different

Although it was 1949 when the Nationalists withdrew to Taiwan, one should actually go back farther in time when considering the partition and the duration of the partition than those 40 years. More accurately, one should start with the split that occurred in 1895. After that year, Japan ruled Taiwan for 50 years until 1945, when the "glorious recovery" of Taiwan occurred. While this "glorious recovery" brought about a fleeting "unification," there was a bloodbath that was more painful than any partition could have wrought—the February 28th Uprising. Thus, if one is to understand from history, the partition between Taiwan and the mainland has been for more than a century. If one wants to be even more specific and go back to the Ching dynasty, then it would be even longer.

The Germanys and the Koreas were created after World War II, only some 40 years, or less than half the time of Taiwan's split. Not only has Taiwan's been longer, but the differences in lengths of time impact differently upon the different societies.

## 3. The Two Separated Societies Have Different Characteristics

Not only has Taiwan been separated longer, but there are greater differences between the two Chinese societies than between East and West Germany and between North and South Korea. In other words, the two shores have a much longer history of partition, and hence their social differences are greater as well.

The development of Taiwan in modern history ties in with the development of global sea power. Taiwan had left the Chinese economic sphere as early as the Dutch era and developed a unique maritime trade economy which then experienced the influences of Cheng in the Ming dynasty, and the Ching, the Japanese, and now contemporary elements. Looking at the footprints of modern history shows that Taiwan had already had a strong foothold long before the Self-Strengthening Movement of the Ching Tung Chih-Kuang Hsu period. After 1895, while ruled by Japan, an alien nation, Taiwan managed to absorb some of the modern civilization of Japan's post-Meiji Reformation period. In contrast, the

mainland had sunk in a quagmire of turbulence. It is estimated that from 1912 to 1927 China went through more than 1,300 big and small conflicts. Such a situation made it impossible for China to modernize. While Taiwan at the time had the misfortune of being under foreign rule, fortunately it was during the time of Japan's "Righteous Democracy" period and was spared major disturbance. Its living standard and cultural quality were rising. The social differences between the two shores gradually increased more and more. Although Taiwan was reunited after World War II, the February 28th Uprising was a result of the friction between dissimilar societies. In the 40 years or so since, the internal frictions among the various ethnic groups within Taiwan have decreased with the gradual development of the economy and social amalgamation, but the differences in the two societies of Taiwan and the mainland have become even more apparent with continued separation.

The differences between the two Germanys and the two Koreas have not shown the historical dissimilarities between our two shores. For these reasons, their social differences are also lesser. The unification of maritime Taiwan with the Chinese mainland will be much more complicated and difficult, and one must also give consideration to some secondary effects as well.

It is therefore dangerous and contrived to equate the unification of Taiwan with the mainland to that of the Germanys and of the Koreas.

## Investment Increased in Fujian Province

OW0606083890 Beijing XINHUA in English  
0549 GMT 6 Jun 90

[Text] Fuzhou, May 6 (XINHUA)—Investment from Taiwan now makes up the bulk of overseas investment in southern China's Fujian Province.

By the end of May, Fujian had 500 Taiwan-funded projects with a total investment of more than one billion U.S. dollars.

Thirty to 40 Taiwanese business groups arrive in the province each day.

Taiwanese investors have increased the size of their investment and have begun to favor solely invested projects with long-term contracts. Much of the new investment is in raw materials production and agricultural development projects.

Many of the projects exceed 10 million U.S. dollars and some exceed 100 million U.S. dollars.